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The Bancroft Library

University of California
Berkeley, California

A. W. "Tom" Clausen

A Legacy of Leadership: CEO of Bank of America and President of the World Bank

Interviews conducted by
Germaine LaBerge
in 1996

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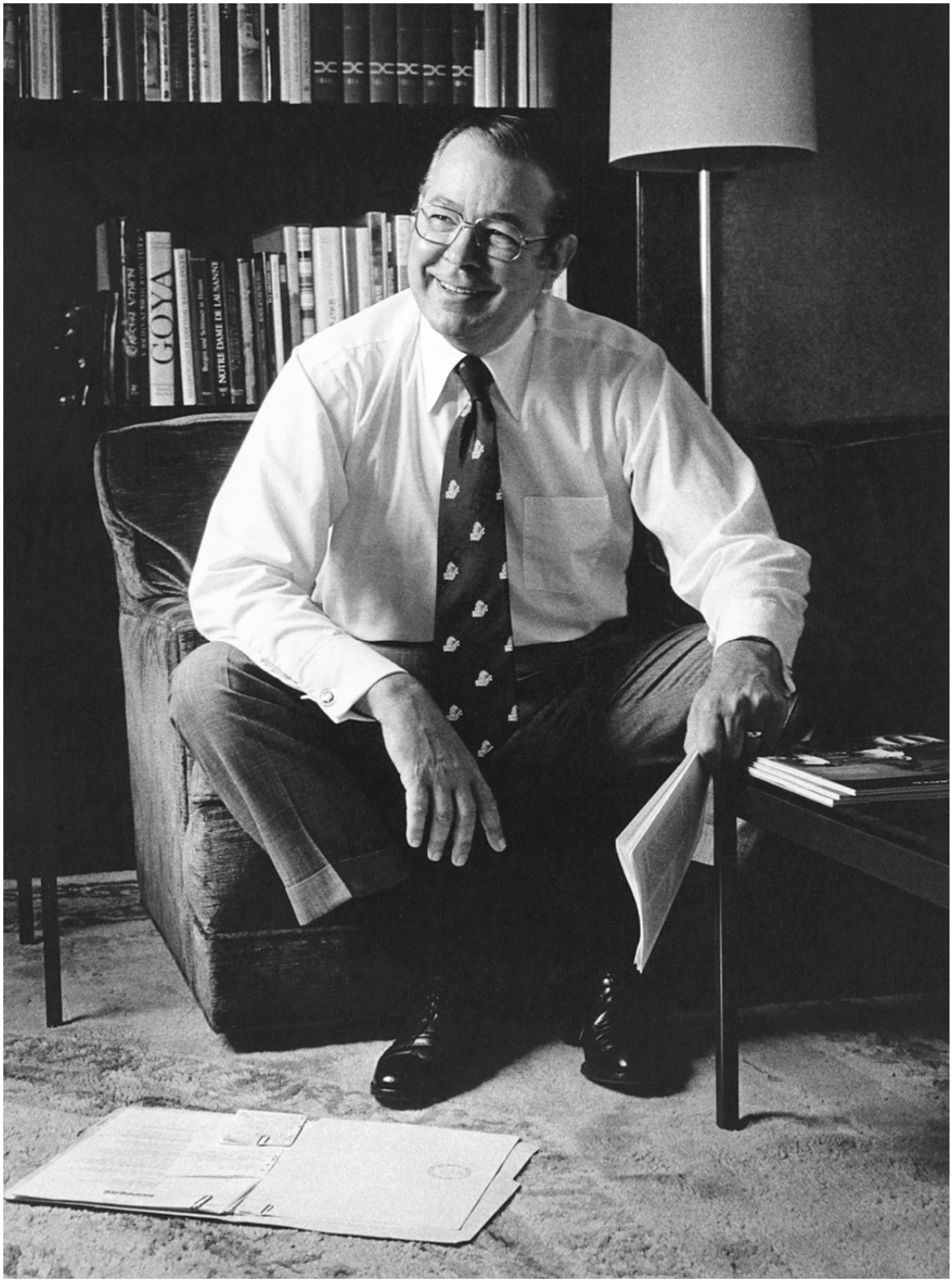

A. W. “Tom” Clausen in the 1970s

A. W. "Tom" Clausen was born a Midwesterner and moved to California in 1949 where he began his Bank of America career at the Los Angeles Main Branch while studying for the California Bar Exam. He went on to lead Bank of America from 1970 to 1981 and again from 1986 to 1990. From 1981 to 1986 he was president of the World Bank. Mr. Clausen was a graduate of Carthage College, and served in the U.S. Army Air Corps during World War II. He passed away in 2013.

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Introduction by Barbara Desoer, Chief Executive Officer, Citibank, N.A.

The legend of Tom Clausen was bigger than life when I joined Bank of America in 1977. Tom had risen from part-time cash counter in the bank's vault in 1949 to become chief executive officer in 1970. *Fortune* magazine wrote of his leadership, "He produced more profits . . . than any banker in history." In addition, on the heels of the turbulent activism of the 1960s, Tom put policies and programs in place that made Bank of America recognized as one of the most socially responsible corporations in America.

Tom's legend only grew when President Jimmy Carter nominated him to head the World Bank, which he did from 1981 to 1986. There he was a staunch advocate for lending to countries and people in need. But during those years, Bank of America increasingly struggled with deregulation, rising costs, and devastating loan losses.

In 1986 I was executive assistant to Bank of America's CEO when the board of directors asked Tom to return as CEO.

I met Tom for the first time on the day he came back to the bank. He asked me, "Who are you and what do you do?" I told him my name and said, "I *was* the executive assistant, and if you'd like, I'm able to continue in that capacity. How can I be of help?"

Tom considered me for a long moment, then said, "I'm going to a management committee meeting. Would you usually attend those?" I told him, "Yes, I would." He said, "Come with me." So we walked down the hall together, and that was the beginning of a lifelong friendship.

It didn't take long for me to be in awe of Tom Clausen. His great passion for Bank of America had brought him back, but his courage and decisiveness were pushing him forward. After years away he had a steep learning curve to climb, but he wasn't afraid to ask the most simple, basic questions to get to the bottom of problems.

For example, in his first days back, Tom spread out ten years' worth of bank annual reports and looked for trends. He said, "The problem just jumped off the page," and he recalled what his mother had told him years before: "If you ever get in business, son, just remember to make sure your income exceeds your expenses." That was precisely the problem.

But Tom believed the problem was fixable, and he set three primary objectives for his management team: "Understand. Stabilize. Improve." It was phenomenal how he stayed firmly committed to those three objectives over the next several years and how he led his team to achieve them. I learned many lessons of leadership from him.

First, despite very challenging circumstances with regulators, the state of the economy, and work that needed to be done with tremendous speed, Tom remained relentlessly focused, determined, and retained a sense of urgency. The result: in seventy-plus days, Tom led the team to securitize assets, sell Banca d'America e d'Italia in Italy, sell credit card operations in other countries, charge off old loans, get rid of redundancy and bureaucracy, and clean up the balance sheet.

Second, I saw Tom make big decisions and quick decisions, and more than anything, I saw him make the right decisions. Indeed, I came to see that one of his greatest strengths was *making* decisions. I believe his decisiveness saved the bank.

Third, another concern was our declining retail market share. Tom felt strongly we had lost sight of putting the customer at the center of all we did. But in his five years away, technology, deregulation, and competition had brought huge changes to the marketplace. I think it was a big struggle for him to reconcile this with his older view of how the retail business should be conducted, because he really cared about the customer. But he was open to listen and learn, and welcomed views and ideas from all, including me, who had more direct experience in this space.

He could easily have been inflexible about what he wanted done, but instead he welcomed my views and invited me to dive into this with him. More than anything, he wanted to do what was right.

Another capability that Tom brought with him was an unparalleled global view. His father was born in Norway, and since Tom was a child he was fascinated with things international. His time at the World Bank only increased his passion for the world economy and gave him an incredible wealth of global knowledge, experiences, and perspectives. And relationships? Amazing! He was friends with people like Margaret Thatcher, Indira Gandhi, and other world leaders. When the bank needed additional capital, Tom went to Japan and through his contacts there, the Bank was able to raise hundreds of millions of dollars.

Tom's world perspective, being able to leverage global relationships, and the ability to look at an issue in the most micro way and see the core of the problem—that was a phenomenal combination.

Working daily with Tom, I saw how much he believed in Bank of America. Yes, it had the greatest franchise of any bank in the world. But even deeper, he felt it had the greatest philosophical foundation a bank could wish for. A.P. Giannini had created the bank in 1904 as a way to help immigrants and people of average means whom most other banks of the time didn't want as customers. It was that legacy of selflessness that touched Tom, and I came to see that his own actions were never about *him*. They were all about getting this great bank's capability back and building on it.

Tom also had a passion for relationships that were important to him—everything from his family to people in support positions at the bank to global leaders. He invested time and love in those relationships even as he was managing through everything else.

He also cared deeply about infusing a global perspective in new generations of students and he backed that up with major gifts to his alma mater, Carthage College, and to the University of California.

Tom was an especially effective leader during this turbulent time. One big reason was how hard he worked to exude confidence. "I didn't come back to rearrange the deck chairs on the *Titanic*," he would say. "Things are coming together. We *can* do this!" Tom would joke about his

Norwegian stubbornness, but it was palpable and it boosted people's confidence that he was *not* going to let the bank fail.

Tom personally led the way in reaching out to bank employees with his positive message of what we were doing, where we were going, and how they could help us get there. He began holding staff meetings up and down California, inviting small groups in for lunch and talking with both line and staff. He even visited with the graveyard shift at a distant data center so employees who had never seen a senior officer before could hear his message and feel his confidence.

When First Interstate Bank tried to take over Bank of America in 1986, Tom had to wait for the board to conduct due diligence on the offer. But once they decided to reject it, Tom went full bore in leading a "No FIB" campaign with employees and put on the first "No FIB" button, which he wore everywhere. Around 50,000 of those buttons were printed, and employees and bank supporters could be seen wearing them all around San Francisco. Eventually First Interstate Bank withdrew its offer. I still have one of those "No FIB" buttons somewhere!

I remember Tom's leadership of the "One New Customer" campaign where he asked each employee to gain "one new customer" to help strengthen the bank. With all the bad news about BofA in those years, employees had hunkered down. But this campaign called on them to stand up and say, "I work for Bank of America and I'd like you to become a customer." Tom sent postcards to employees on which they could write to him and tell him, "I gained this person as a customer for this kind of service." He was so pleased with the response that he arranged to send thank-you letters to every employee who sent in a card—and he wanted to sign each letter personally. I remember him taking a couple thousand letters on a plane and signing them on board. Helen Higgins was his secretary then, and the volume of those letters drove her crazy! But what he genuinely communicated through those letters had an unbelievable impact on people.

Finally, in the third quarter of 1987, the bank began to show an operating profit—a small one, but a profit nonetheless. Tom Clausen had come back, filled the gap of leadership, and helped the team to achieve the turnaround of Bank of America.

Immediately after the dividend was reinstituted, Tom announced that every employee was going to get ten shares of stock and an extra day off as a way of saying "thank you" for their role in making the turnaround possible. The genuineness of that positive gesture shot morale through the roof.

When Tom retired in May 1990, he moved to the Retired Executives office, where I found his door was always open to me. Whenever we got together, in person or by phone, he was always "in the moment" giving me his undivided attention. It didn't matter if I was sharing great news with him like the birth of my daughter or challenging news like a merger or acquisition or asking his guidance on a critical career decision. He truly listened and heard me. That was a characteristic I benefited from greatly and one I worked to emulate as a manager and leader as I developed and took on positions of increasing responsibility.

Over the years it meant a great deal to me how much Tom cared about me and my family. Even though I moved away to Charlotte, North Carolina, where the merged Bank of America and NationsBank was headquartered, we stayed connected. When I returned to San Francisco I went

to see Tom just to share good news with him and see the joy in his eyes. He *always* had so much confidence in my capability, so much belief in my potential.

One of my dearest memories came at my retirement party in Charlotte in 2012. Former CEOs Dick Rosenberg, Hugh McColl, and Ken Lewis and the current CEO, Brian Moynihan, gave very supportive messages. Because of Tom's health problems and being in California, he spoke by phone. But the fact that he was willing to speak and the messages that he chose to share were very moving. He talked about our relationship, what work we did together, and the value he felt I added. He spoke of my daughter and my husband by name, even though he hadn't seen them for years, and he said such kind things about them. I will cherish that forever.

Those were the last words I heard from him.

It was an extraordinary privilege to know Tom Clausen in this lifetime. There are things he said to me while teaching me lessons that I still replay in my mind. He was the greatest mentor, supporter, and teacher I ever had in my career in banking.

Tom was *always* there for me.

And his memory still is.

Barbara Desoer

Chief Executive Officer, Citibank, N.A.

November 1, 2015

Interview History by Germaine LaBerge

The American banking industry transformed itself in the second half of the twentieth century--responding to government regulations, economic seesaws, and consumer needs. The story of that transformation is best told in the words of those intimately involved as key players and catalysts for change.

A. W. Clausen spent forty-plus years at Bank of America, fourteen as president, chairman and CEO. The Regional Oral History Office previously recorded a memoir with Clausen's predecessor, Rudolph Peterson, and successor, Richard Rosenberg. The Bank of America Foundation, ever mindful of the importance of its own archives and historical research in general, initiated this interview. We thank them for providing funding of A.W. Clausen's memoirs for future researchers.

Mr. Clausen and I met nine times from March through September 1996 in the Retired Officers' Suite at BankAmerica in San Francisco. In the resulting transcription of thirty-two tape hours, Mr. Clausen's mind connects events easily into narrative form, resulting in an interview that is both autobiographical and topical. "Not all interviewees will lend themselves to this form of interview, but only a fine speaker or raconteur will provide a fascinating narrative." (*Voices, A Guide to Oral History*) A.W. Clausen's memoir is indeed fascinating.

A small town boy, proud of his Norwegian ancestry, Tom Clausen grew up in Hamilton, Illinois, in the depths of the Depression. His parents published the local newspaper, so as a youngster he learned early to work the linotype machine, sell advertising, and the like. His undergraduate studies at Carthage College were interrupted by service in the Army Air Corps during World War II. After law school at the University of Minnesota (1946-1949), the young lawyer "followed a girl" to California, where he studied for the California bar exam, secured a job at Bank of America in Los Angeles and most importantly, won the hand of Margaret Mary Crassweller in marriage.

In the oral history, Clausen talks about his early life and his subsequent career at Bank of America, the World Bank, and on many philanthropic boards. The reader of the transcript watches and evaluates economic events through Clausen's voice, always interlaced with philosophical commentary. His interest in and devotion to SubSaharan Africa, to medical research, and to his family, is evident throughout. Presidents and prime ministers asked for his advice; corporations sought his expertise; two sons depended on his guidance.

The thirty-two tapes were transcribed at the Regional Oral History Office, edited for clarity, and sent to Mr. Clausen for review in 1997. His busy life precluded him from editing his thick transcript until 2003-2004. With the able help of Duncan Knowles, retired Bank of America vice president and director of Specialized Communications & Heritage Programs, he transformed his spoken words into a written masterpiece.

Through much of his career, Mr. Clausen depended on the organizational skills of Helen Higgins, his assistant extraordinaire and later his wife. This interviewer owes her a debt of gratitude for helping bring this project to completion. And warm thanks to Mr. Clausen for spending valuable time with me in reflection. Researchers in various fields—international

relations, economics, psychology, philanthropy—will find a rich resource in this oral history of A.W. Clausen

The Regional Oral History Office, now the oral History Center of The Bancroft Library, was established in 1954 to augment through tape-recorded memoirs the Library's materials on the history of California and the West. Copies of all interviews are available for research use in The Bancroft Library and in the UCLA Department of Special Collections and in digital form on the web. Tapes of the interviews are also available for listening in The Bancroft Library. The Oral History Center of The Bancroft Library is under the direction of Neil Henry and the administrative direction of Elaine Tennant, James D. Hart Director of The Bancroft Library, University of California, Berkeley.

Germaine LaBerge

October 2004

Regional Oral History Office

The Bancroft Library

University of California

Berkeley, California

[This transcript has been heavily edited. Occasional reference points throughout the text indicate audio tape locations, but otherwise the text does not follow the recorded interviews.]

A. W. Clausen

I. Family Background, Childhood, and Education

Clausen: Do you want me to follow the outline?

LaBerge: Well, kind of, but that's just a guide. Why don't we start with when and where you were born?

Clausen: Okay. I was born on a day kind of like this on February 17, 1923, in Hamilton, Illinois, in Hancock County. Hamilton is on the Mississippi River. I tell the anecdote that if I could climb a tree in the backyard of the house where I was born, I would still be in Illinois, but I could see Iowa and Missouri. So it's where Illinois, Iowa, and Missouri meet on the map -- what they call the "pregnant" part of Illinois, on the Mississippi River.

Mother, Elsie Emma Kroll

My mother was Elsie Emma Kroll who was born in Arlington, Minnesota, in 1898, April 13. In three and a half weeks, my mother will be ninety-eight years old. She lives in Los Angeles with my sister, Joycelynn Adele Clausen, who was born on September 5, 1920. My sister is just a couple of years older than I am. Peggy [Mr. Clausen's wife] and I go down to see my mother every five or six weeks. We just went down last week and spent four and a half hours with her. She's on a walker and she needs help. Three days after we left, she was sitting on her bed and fell. She hadn't left the house in several years, but at the moment, she's in the hospital. They x-rayed her and even though they found no broken bones, she's still in the hospital and my suspicions are that she's getting very close to the end. Her battery has run down rather rapidly in the last two or three years.

Norwegian Roots of Father, Morton Clausen

LaBerge: How about your father?

Clausen: My father was born on April 27, 1896. He was two years older than my mother. He died in August, 1984, at age eighty-eight.

LaBerge: You have a lot of longevity in your family.

Clausen: Yes, we do.

LaBerge: And your dad's name?

Clausen: My father's name was Morton with no middle initial. He was born in Norway in a little fishermen's village called Bø -- that's spelled with the o with the slide bar through the wrong way and no umlauts. Bø is in the Vesterålens, the Western Islands, north of the Lofoten Islands off the Atlantic coast of Norway, a little bit north of the Arctic Circle. I think my father was the oldest in the family of four children: Halfdan -- Half Dane – was his brother; Signe was the sister; Gunnar was the youngest. There might have been a couple of other siblings that died early on, I'm inclined to say. We have a bibliography in my library at home and it gives the family history.

I have a family tree that goes way back. My grandparents on my father's side, Bestemor and Bestefar, were born in the Vesterålens. We called my grandmother Bestemor, which is grandmother in Norwegian. "Mor" means mother. My grandfather's name was Matthias, but we called him Bestefar, which is grandfather in Norwegian. "Far" means father. Bestefar was born in Bø and my grandmother was born maybe 100 kilometers away. I don't know where. Her given name was Charlotte Pauline Lockert. On my grandmother's side, I have a family tree going back to, let's say, 1630, and on my grandfather Matthias's side, it goes back to the 1570s, as a guess.

LaBerge: And what was the bibliography that you were talking about?

Clausen: It's called a *bygdebok*. It's a published book of family trees of prominent Norwegian families. My father is in that book. It gives his family background and picks up the Bestemor and Bestefar lines and carries them back.

Father Emigrates to the United States

My father came to the United States when he was, let's say, sixteen years old. He went to the state of Washington to live with a Norwegian family where he learned the English language.

LaBerge: Do you know what caused him to come?

Clausen: Yes -- because his family were farmers and fishermen, and my father, who was an intellectual, decided that while fishing and farming is great, it was not for him. He wanted to strike out to America, the United States, for greater opportunity just as many, many Europeans did in that era. He wanted to be unleashed from the shackles of old traditions. Not that he didn't love his family, he did – because later he brought his mother and father, Bestefar and Bestemor, to the United States and all the rest of his family, including his two brothers and his sister.

My father came over around age fifteen or sixteen and went to Spokane, Washington, where he went to Spokane College. The college is no longer in existence because Father Barney Coughlin of Gonzaga University in Spokane looked it up for me. I have an honorary degree from Gonzaga and I love Barney Coughlin. He's a terrific individual, very inspirational, and I went up there to give a lecture and spent several days on the campus. Barney tried to locate Spokane College, but he couldn't find any record of it. We have a picture of when my father was on the basketball team with Spokane College. [Later research identified a Spokane College founded in 1906 by the United Norwegian Lutheran Church. It was located on the east side of Grand Boulevard between 29th Avenue and 31st Avenue. It closed about 1929 and was taken over by Spokane Junior College and then consolidated with Whitworth College in 1942.]

My father then transferred to St. Olaf in Minnesota, and when World War I came along, he enlisted here in the United States and became a naturalized citizen by virtue of joining the army. Whether that was law or was a special enticement for the troops in World War I, I don't know.

My father never completed his college education. He was wounded in the service in France, I believe in Verdun. They fought out of trenches and would go over the top to charge the enemy. It was pretty grim. My father was a private and he became friends with a British junior officer whose name was Alden Winship. They both were thinking they might die, so they made a pact with each other that in case they survived, they would name their firstborn son after each other. I remember my father telling me about it and I can kind of picture it -- flak exploding in the air, bullets flying all over, barbed wire, and a lot of people dying.

So despite the fact that I come from a family rich in names like Knute and Sverre and Halfdan and Signe and Olaf and Kjell and Tormaut (I love the name Tormaut) -- I'm Alden Winship. That's because the British soldier was killed and my father kept his word. He himself was wounded, having

been shot through the hip, and he was hospitalized for a while, but he had no limp in his later years.

So the war ended for my father at the time he was wounded, and he was discharged and recovered completely. He didn't go back to St. Olaf, but he went instead to Minneapolis where he became an employee of the Turner Construction Company, which had a brick factory in Hamilton, Illinois.

My father was in his early twenties at this time and he was in Minneapolis long enough to meet and marry my mother, Elsie Emma Kroll. So my father and mother came to Hamilton, Illinois, because Turner Construction made my father a superintendent of the brickyard there. Hamilton is right across the Mississippi River from Keokuk, Iowa. (Chief Keokuk was an Indian chief of a local tribe.) Going to Keokuk, you went through a covered bridge. That covered bridge is no longer there, as it burned down, but it was one of the historic things of the town. (A friend of mine did a painting of the bridge.) My sister, Joycelynn, was born in the hospital in Keokuk, and two years later I was born in Hamilton. She was a September baby and I'm a February baby.

LaBerge: Were you going to say something more about your mother's family?

Clausen: Well, my mother was born in Arlington, Minnesota. Her mother, my Grandma Ida, was born in what is now Poland. My grandfather was born in Alsace-Lorraine and whether he was German or French depends on what country owned that territory at the time. I never met my grandfather as he died while my mother was still young.

One of my mother's sisters had a hat store in Windom, Minnesota. And Clark Beise [former president of Bank of America], whose office this was, also came from that part of Minnesota. He claimed he knew my mother's sister and remembered her hat store! Clark died when he was about ninety years old -- bankers last a long time! [laughter]

My mother's father died when my mother was a young girl. Her mother, Ida, had thirteen children and my mother was close to the last, perhaps number eleven. Freda was the youngest, the baby in the family. I think my mother's family is pretty much all gone now – Jack, John, Anna, Ernst, Louise and Olga are ones I can name readily. I think Freda is the only one still alive. I want to say there were maybe six girls and seven men, or vice versa, or maybe I missed that by one

LaBerge: That's fine.

Clausen: So part of my mother's childhood was without a father. She remembers her father, so maybe she was a teenager when he passed away. But anyway, when he died, they lived on a farm in Arlington. I went to the farm as a young boy and I just vaguely remember it. Then Grandma Ida moved to Minneapolis and bought a house. So my mother was working at a job teaching music. She had gone through a music college and she played the piano pretty well. I won't say wonderfully well, as she was not a pianist. She also liked to sing. But since her voice gave out early on, she translated her ambition for singing to my sister.

My sister had a nice voice. She sang at the St. Louis Municipal Opera in their summer opera concerts in what's called Forest Park, a big park with a zoo in the city. They would sing Gilbert and Sullivan -- it was light opera. My sister graduated from Carthage College in Carthage, Illinois, which was twelve miles away from Hamilton. (Carthage is the county seat of Hancock County, which includes Hamilton.) After she graduated, she got a job as a schoolteacher in LaHarpe, a little bitty town nearby and then she got that job singing in the light opera in St. Louis. She had the job for six months in each of two years.

So in summary, Morton and Elsie Clausen had two children – my older sister, Joycelynn Adele, and myself.

LaBerge: How did your parents meet?

Clausen: I don't know how they met. If I knew, I never focused on it.

LaBerge: So after they were married, they came to Hamilton, Illinois.

Clausen: Yes.

LaBerge: And what happened with the brick factory?

Clausen: Well, Joycelynn had been born and I guess my mother was pregnant with me when the brick factory burned down. Turner, the owner of the factory, was in Minneapolis and my father got a wire or a phone call from him saying that since the brick factory burned down, there was no need for him. So he was released as an employee.

My father told the story that no Norwegian worth his salt comes home to his family, with one baby and another in the oven, without having a job. So on the way home, he bought the local newspaper business, a weekly. The paper’s owner had been making a rather handsome living by selling

the paper and getting a large down payment – somewhere in the area of $1,000 -- and when the buyers couldn't make money on the paper and make the follow-up payments, he would take it over again. He had done this four or five times and since no one had been able to make money on that newspaper, he was living on the down payments. This was back in the early twenties – perhaps 1922, as I was born in February of 1923.

I recall my mother and my father talking about this later and my mother had been sick about it when it happened. In those days, $1,000 was a lot of money. I think it was harder on my mother because she was a long way from her family, and she thought my father had done a very, very dumb thing, if not worse than dumb. But my father made a go of it. And my mother went to work on the books.

Relatives Come From Norway to Hamilton

Soon, some of our relatives began to come over from Norway. I guess the first one was my father's sister, Signe. She came over as a single lady. Then Gunnar came, and then Halfdan, I think in that order. Gunnar worked at my father's newspaper after he came over. Halfdan would go away for three or five or ten years, and then he would show up again. So I haven't the foggiest notion what Halfdan did. I do remember talk about Uncle Halfdan: "Where is he?" and "No one knows." Then one day he would show up and stay around Hamilton for a few months, and then he was gone again. My recollection of Halfdan was that no one knew where he'd gone or whether he'd died.

My father brought my grandparents, Bestefar and Bestemor, over to Hamilton as well. My grandfather worked at the newspaper too. My father bought them a small house, which was two blocks from where our house was. I had been born in another house closer to town. Hamilton has an outskirt called Oakwood, which was maybe a mile and a quarter from downtown Hamilton. Downtown Hamilton was three blocks long. In 1977, I took Peggy to my hometown to see it. By now, I was a CEO and my hometown was terribly proud that one of their lot had become the president of BankAmerica Corporation.

I was in Chicago and had to go to St. Louis, and since Hamilton was halfway between the two, I had the corporate jet land at Quincy, the nearest airport to Hamilton. Friends from high school and college picked us up, and they took Peggy and me to a hotel in Keokuk. When we drove through Hamilton, I can remember Peggy asking, "Is this downtown Hamilton?" I said, "Yes." She said, "Well, it's only three blocks long." I

said, “Don’t knock it. It's on both sides of the street!” But it really is a very small town. When I grew up, it had perhaps 1,600 people. When we went there in 1977, I think the population had grown to about 3,500. But it's still a small town.

Early Hamilton Industry

When I was young, Hamilton was a typical small farming town. Corn and hogs were important parts of the local economy. There was a bee factory called Dadant, owned by a French family. They produced beeswax and honey and they made candles for the Catholic Church. The Dadants were Catholic. The factory is still operative, because in a farming community, there is a lot of clover and there are a lot of bees and honeycomb for honey. That was really the principal industry of the town. Early on, the industry had been bricks and then the bee factory emerged after the Dadants came over from France. The Dadants had the big house in town, although we were not on the other side of the tracks from the wealth in the community. We were a good solid middle-class family, because my mother and father both worked very hard, and so did my sister and I. We grew up working and we made a success of it fairly early.

Barter in Hamilton

My mother worked almost every day at the *Hamilton Press* and she had good ideas that helped bring in business. When we had “Milk Week” she got the milk and butter producers to take out ads. She would also go and ring doorbells and sell subscriptions and advertising. The subscription to the newspaper was two dollars a year. An interesting point is that we lived quite a bit on barter – that is, we traded printing work and subscriptions and were paid from goods and services. At times, it seemed to me we lived more on barter than we did on cash. The movie house in Hamilton would want to let people know what movies were being shown, and we would publish its ads. We wouldn’t get any cash for it, but we could attend the movie for free. So I went to all the movies.

We would barter with dentists and doctors and grocery stores and then we'd settle up at the end of the year or more frequently. We’d total up how much advertising we had given a store and how many groceries we had bought from it, and then we’d settle the difference – we’d either get some cash or we’d give some. We bought automobiles and everything mostly on barter. Some people would go for years without paying for their two-dollar-a-year subscriptions, and if that lasted for say eight years, that's sixteen dollars. That sixteen dollars might equate to half a cow. And so we

canned meat -- yes, it can be canned in mason jars; you cook it and shove it in there. We did the same thing with peaches, potatoes, apples and pumpkins. Several ladies paid for their subscriptions by doing ironing. Very little cash passed back and forth. We sold advertising in Keokuk, Iowa, and as far away as Quincy, the big town thirty-six miles to the south. It was a good life.

Learning to Care for the Poor

Living in Hamilton also helped me to appreciate the plight of the poor, and I think that helped me do a better job as head of the World Bank. I can remember feeling that concern when I was a youngster. A poor black man named Gubber White would come over to our house and split wood and cut our grass; he'd also pick tomatoes and strawberries and do odd jobs. He had a very tall son who was picked on and who was in a number of fights. I had a lot of empathy with Gubber White and I saw that the community tried to look after him and his family. I can't say his family was well taken care of, but people did have concern for them. I've never forgotten Gubber White.

First Job: Picking Strawberries

LaBerge: I want to go back a bit -- you talked about a job that you had picking strawberries.

Clausen: That was the first job for which I got paid, as I recall. I picked strawberries for the neighbor who owned the strawberry patch, and I'd get a few cents a box. I did that for one or two summers. These were not the little bitty boxes you get today -- these were maybe twice as big. The owner was a very persnickety guy, and that's where I learned that one has to be careful to satisfy the boss. He didn't like any grass or weeds or dirt that you tend to get when you're picking strawberries. Each box had to be clean. And if it wasn't a clean box, he would dock you.

We'd go through and pick the berries and then a morning or two later, we'd go through again as more would have ripened. I don't know how many passes you could make on a row, but you could make a good many before the harvest was over. The growing season was only a few weeks long and I made perhaps fifteen bucks.

Working on Father's Newspaper

Then of course, I really learned how to work. I worked for the *Hamilton Press* with my father. My mother worked to help, too, and Bestefar worked there every day. My father also ran the *Hamilton Press* as a job shop -- you print cards and bills, and you do print work for people needing notices and political fliers and having auctions -- all of that is called job shop. I learned the trade myself.

LaBerge: How old were you when you first started?

Clausen: I started when I was eight or nine years old. First of all, I'd sweep. I'd go down after school or on weekends, because my father was always working. Saturdays were workdays and we only took Sunday off. Since I was only eight or nine, I had to stand on a box to feed the press to print the handbills and fliers. The press opens up like this [like an L], and you put the paper in here when it opens, and make sure you take your fingers out so when the thing comes together [demonstrating with hands]! There are rollers and there's an ink plate up on top, which the rollers go over to be inked and then it rolls over the type.

I learned to operate the Mergenthaler Type 5 Linotype which used hot metal. It had a keyboard that required just a light touch and I became rather proficient working the linotype. You'd hit one of those keys and a little font would come down there and you could see on the end that it was an "M". They were stacked together. [Pulls one out of his desk] Somebody gave that to me.

LaBerge: Used by the machine?

Clausen: Yes.

LaBerge: Oh, it's great.

Clausen: These things slid down and were caught, and then when you had a tight line, you would send it through. It would be picked up and shoved over to the left, and a plunger came down. The type would need to be packed tightly, because when the hot metal goes in there, if there are any holes, then you get squirted. So I have squirt marks as a result of the hot metal!

I got up to maybe one and a half galleys an hour. I think we had six columns. So to do one full page of solid print out of linotype, it would take four hours. Then you had to read it and proof it. You had to learn how to

spell. I know how -- not as well as I used to, because I don't have to do it very often -- but I catch things all the time. It just comes naturally now without thinking about it.

When I got to high school, I put out what was called the high school page. My father gave the high school a page for school news, because it was a fairly important high school (it was the only one!). We had a good football team and we had great basketball teams, and there was a lot of focus on the school in the community. So having a page for high school news was a good way to sell newspapers.

The high school newspaper was *The Red and the Black.* And I was the editor. Sometimes when we were really pressed, or I was late, or somebody didn't produce a story that we wanted, I'd sit at the linotype and compose the story without first writing it out and correcting it. I'd just pull out the slugs and hope it would turn out well.

So I did everything on the newspaper. Today, this process is all done electronically. But the skills I learned turned out to be helpful ones because after I graduated from high school in 1940, I got a job working a linotype while I was going to college.

Our weekly newspaper was "put to bed" and taken to the post office early Thursday afternoon. I can remember that my father and grandfather would then wait for me until I got out of school and we would go fishing. We went fishing every Thursday afternoon on the Mississippi River where we'd catch perch, catfish, carp and wide-mouthed bass. Carp is bony, but catfish was the delicacy and small perches were fantastic too. So that was my life.

Getting the Nickname "Tom"

LaBerge: Okay. Well, I have more things to ask you from your childhood. Particularly, how did you get the nickname "Tom"?

Clausen: I was in a play about the time I was in the first grade in Oakwood School. Oakwood was a suburb of Hamilton, although the town wasn't big enough to have a suburb!

The play was put on at the Presbyterian Church, and in this play I was called "Tommy" (not Tom). I remember that Meredith Kane was the femme fatale! She was after me, and I guess I was after her. I don't remember much else about the theme of the play. We gave it to the PTA

of the school, and I guess it was a cute play, because then we were asked to give the play at the Kiwanis Club. My father was very active in the Kiwanis Club, and the Hamilton chapter was a very well-known, very active, very powerful club -- small, but all the business people in the town really supported it. It was active in state politics, in the organization of Kiwanis Clubs, and also in the national club too. It won a number of awards in those days.

And since I was one of the two or three leads in the play, the town folks thereafter started calling me "Tommy." I had other nicknames intermittently. When the ventriloquist Edgar Bergen came along, he had a dummy character named Mortimer Snerd. Since my father's name was Morton, I was called little Mort, Mort, or Mortimer for Mortimer Snerd. If my classmates wanted to tease me or show disrespect, then they called me "Aaaaalden," which I didn't particularly like. I didn't mind the others; they were all in jest. But I've never really cared for the name of Alden. All my life I signed my personal checks "Alden W.," and my professional name is A. W. Clausen. But my mother calls me Tom, my sister calls me Tom, and my friends call me Tom. Once in a while, when my wife wants to needle me, she calls me "Aaalden." But the nickname "Tom" has carried through.

Childhood Mischief

LaBerge: I understand you did a little mischief in your childhood. Will you tell us about that?

Clausen: I guess I was seven or eight years old. I was not terribly mischievous, but I did a little damage when I was young. I won't tell you very many of those stories! I remember once I rolled a haywagon down the hill. I'm not proud of that. It was just destructive.

I remember Mr. Knapp, a very odd fellow, who had a little bitty house and a patch of turnips on our block. He was a recluse and we were all kind of scared of him growing up. My school was on the same block and one could go through the school's fence into Mr. Knapp's yard. Now, I loved raw turnips. To this day, I love raw turnips. I love cooked turnips too. So I went through that fence to sneak a turnip from his yard. But just then, Mr. Knapp came out – and he had a shotgun! I was scared to death! But he didn't raise the gun. He said, "You're the Clausen boy." Then he reached down and yanked up another turnip and tore off the top. He handed it to me and said, "Here's a better one." I couldn't have been more surprised!

So I came to know that Mr. Knapp was not all bad. After that, I was one of the few who had the courage to have a little conversation with him. His place smelled. Even today, I remember the smell coming out of that hut. He did his own cooking and no one paid any attention to him. I read recently that the Unabomber had a ten-by-twelve foot hut. Now he's in a jail cell that's seven by ten. Ten by twelve seems larger than what Mr. Knapp's house was.

Another time I got caught doing something bad at Halloween. There were a lot of outhouses in those days, and one of the tricks that youngsters in town would have fun doing was to tip over an outhouse. (I know it doesn't sound like much fun today!) I got caught doing that. Hamilton was just a little bitty town and boy, if you stepped out of line, the whole town would know.

My grandmother was in the outhouse once when it was tipped over, and that made my father very, very angry. I was arrested by the local constable who was a member of our church. Although he knew me, he locked me up and called my family. My father decided, “Well, let's leave him there.” As a result, I was there for a night, and so I have a criminal record!

LaBerge: We don't want that to get out! [laughter]

Clausen: That's why I could never be confirmed for anything in government, because this would come to the forefront! [Laughs] But it was that kind of a town.

Church Life

LaBerge: Was church an important part of your life?

Clausen: Very much so. My mother and father were born Lutheran and married in a Lutheran church in Minneapolis. There wasn’t a Lutheran church in Hamilton, so I was raised as a Presbyterian -- in the Bethel Presbyterian Church, very near town. My mother, my father, and my sister and I went to church regularly. Bestefar, who could speak broken English, would go to church with us as part of our family. My grandmother, Bestemor, stayed home as it bothered her that she could not speak English, and she was shy. So my job after church was always to go see Bestemor and ask her to have dinner with us. (Dinner was in the middle of the day: we had breakfast, dinner, and supper.) So after church, while the rest of my family would take the car and go home, I'd walk to Bestemor’s. Although I spoke no Norwegian and Bestemor spoke no English, we had a special relationship

while I was growing up. She'd always give me something sweet -- a cookie, some cake, or pie. The Norwegian tradition in a family is for the mother, the hostess, to make sure that those who come into her home have a meal and are taken care of very well. So my memory of Bestemor was that she would literally circle the table in her house, and make sure that, boy, if you needed more Swedish meatballs, you got them!

I don't know why they call them Swedish meatballs, because the Norwegians probably invented them. I was born not to dislike the Swedes, but you know, the Swedes were not as bright as the Norwegians! [laughter] Mr. Peterson was born in Sweden and we tell each other Swedish and Norwegian stories, because we've both heard them all.

LaBerge: Right.

Clausen: And I can see Bestemor now, particularly with the sweets. She would have cake and pie and cookies, just loaded with sugar. Of course, it's a cold climate in Bø and you need sugar for energy, and that's the rationale for it. She was a marvelous cook. But Bestefar did the shopping, because she had difficulty. Once in a while, Bestemor would get up her courage and go to the local grocery store a few blocks from where she lived, where they got to know her.

Father Was a Respected Leader

LaBerge: Your father seems to have made quite a place for himself. Can you tell us more about his involvements?

Clausen: My father was very respected in the community. He was not only the editor and publisher of the newspaper. He became the president of the Illinois Editorial Association. He knew Bertie [Robert Rutherford] McCormick -- he's the *Chicago Tribune* guy. I met Bertie McCormick once, because every summer my father would go to Chicago or St. Louis, and many times he would take my sister and me along with him. On one of those trips my father took me with him when we called on Mr. McCormick at the *Chicago Tribune*.

My father was a strong Republican and he preached the Republican doctrine in his editorials. He was a writer and he wrote his own editorials – rather well, I thought. He certainly had his head screwed on right. I truly admire my father very much, because he worked his tail off. He worked hard manually as well as intellectually.

My father did not drink and thought it was wrong. And when he first bought the newspaper, Hamilton had a lot of taverns. But he began to write editorials against them and after about four or five years, there weren't any taverns left. He drove them all out beyond the city limits.

LaBerge: Was that view of liquor strictly enforced at home?

Clausen: My father and mother never drank and my mother doesn't to this day. My mother was more anti-drinking than my father by a considerable amount. She was really against it. But once upon a time she invited her family to have a family reunion in Hamilton. Her family were mostly from Minneapolis and elsewhere in Minnesota, but one brother and sister-in-law and two nephews lived in Mendon, Illinois, about thirty miles from our hometown. And they were all of German origin. So my mother was going to make a German meal. And Germans drink beer.

Now my father, who had driven all the taverns outside the city limits, was perceived in town as a dominant personality. He was seen as someone smart who took charge. He was highly respected. So he knew he couldn't go out locally and buy some beer, because how two-faced can you be? So he went to Quincy or Keokuk and bought a couple of cases of beer and put them in our basement.

In the early years, we drew our water from a well and brought it inside. But when I was very young, our family got indoor plumbing and running water powered by a pump in the basement. Now just at this time the pump motor broke down, so we called the plumber. I still remember his name: Ralph Fowler, who was an elder of the Presbyterian Church. And Mother really didn't think much about it when she called Mr. Fowler to come out and fix the pump; she was concentrating on her family that was going to be there. And when Mr. Fowler arrived, what did he discover but two cases of beer in our basement! [laughter] As I said before, there are no secrets in a small community, and now it was all over town – "Those two-faced Clausens! Morton in particular, who lobbied so strongly with his hard-nosed editorials to drive liquor out of town – he's a silent drinker!"

LaBerge: That's a good story. You mentioned these relatives of your mother's, but we haven't talked much about them. They lived close by. Were they important in your life?

Clausen: They were. My mother's family was largely in Minnesota. But as I said, she had one brother, Ernest, who lived nearby -- in Mendon, Illinois, maybe thirty miles south of Hamilton, and he also ended up in the

newspaper business. Mendon was a town of only 600 people and it was a very, very, very, very poor community. Hamilton was a poor community, but we had the advantage of having Keokuk, Iowa, a town of 16,000 people across the river to draw on to support the newspaper and the job shop.

My father did far better than Uncle Ernest, who was a little bit strange and later institutionalized. Ernest did not work as hard as my father, and his wife Eileen didn't work nearly as hard as my mother. The work discipline in that family, as I now think back on it, was not what it was in my family. They had their own problems to deal with including one of their sons, Howard, who was epileptic. The other son Edward, is maybe five years younger than me. Howard has since died, but he was about two years younger than me.

In those days, our families got together quite frequently. On Sundays we'd drive the thirty miles or so down that way and meet in parks and have a picnic, or they would come up. There was a wonderful social club in Hamilton on the Mississippi River called the Lakeview Country Club. We spent hundreds of Sundays and holidays there with our families -- swimming and dancing and really having fun. So I have very great memories of those days.

LaBerge: You began to tell us more about your father.

Clausen: I was very impressed with his discipline and his work ethic. He was a self-made man. You couldn't tell he was born in a different country because he spoke perfect English. My grandfather, Bestefar, would say at breakfast time, “Pass the orange yuice, Yoycie.” He couldn't pronounce his “J's.” But my father’s elocution was perfect. He was a highly-regarded public speaker who was in demand. He spoke at the Hamilton High School commencement at least three times that I can remember. He would give lectures at Carthage College at what's called the EX Club, which included professors from Carthage College and businessmen from towns in the broader area like Keokuk, Hamilton, La Harpe and Nauvoo.

You may have heard of Nauvoo. It’s the city on the Mississippi River near Quincy that the Mormons founded in 1839. Within five years it had a population of 10,000 people, mostly Mormons, and an impressive temple. But the church’s practice of allowing multiple marriages… what do you call it?

LaBerge: Oh, polygamy.

Clausen: Polygamy. The polygamy issue stirred a lot of controversy. And then Joseph Smith, the founder of the church, announced he was going to run for President. This was back in 1844 and opposition grew so strong that when Smith allegedly tried to destroy a newspaper that had done an expose on polygamy – never mess with newspaper people! – he was imprisoned in Carthage, Illinois. Before he could be tried, a mob broke into his cell and killed both him and his brother. Mobs then razed the Mormon temple in Nauvoo, burning it to the ground. So Brigham Young took control of the church and led the Mormon community west, where they ended up in Salt Lake City. A branch of the church spun off and settled in Independence, Missouri. That's President Harry Truman's hometown. And today there's a large Mormon settlement there.

Memories of School Life

LaBerge: Can we talk about your school life? Let's go back to grade school.

Clausen: Sure. I've always had to work hard for grades and I always sweated bullets on exams. I'm no brain, but for some strange reason, I always made good grades. I don't say I was a teacher's pet, but the teachers seemed to like me. I will say that I always did my homework. And the school -- Oakwood School -- it was two rooms, did I tell you that?

LaBerge: No.

Clausen: It was a two-room schoolhouse. I went four years in one room. Miss Kindred was my first grade teacher and I loved her. There was a superintendent of the school -- his name was Huey Alton -- whom I didn't care for. I was too young to know whether I had respect for him. I didn't have much. But I loved Miss Kindred. She was very kind and attentive and motherly, and was a lot like my own mother. Then starting in the fourth grade --

LaBerge: So you had her for the first --

Clausen: First four grades. We were all in the same room, so we sat in columns, and I guess the first grade was here [gestures] and the second grade was here. There may have been twenty-five or thirty in each room.

Then in the fifth grade, I moved to the other room, where I had Mrs. Knowles. One of Gertrude Knowles's sons, Edwin Knowles, lives in Los Angeles. And then for the seventh and eighth grades, I went to school in downtown Hamilton, where my father had bought a building. It was on the

other side of the town from Oakwood and it had two storefronts. The *Hamilton Press* was on one side, and the ground floor on the other side was rented. But above both of those store units were maybe three two-room apartments and one three-room apartment. Then going all the way to the alley in the back, I want to say there was a five-room apartment. A number of families lived above the one storefront – it was a restaurant for a while and then it became a store.

Our family moved to occupy one of the apartments rather than to rent it. We kind of closed down the house where I'd lived after I was born. I recalled that house as huge. It had three bedrooms upstairs and an attractive open stairway. My mother and father had the bedroom in the middle, my sister had a bedroom on one side, and I had a bedroom on the other. I remember telling Peggy how large it was, saying I could go in my closet and be lost for weeks. I could always hide in my closet when I wanted and even my mother couldn't find me. So I took Peggy back to see this huge house. I hadn't thought about the fact that I was only one year old when my father bought it. And now I discovered that the house was so small I had to go out in the yard to change my mind! It was that small.

LaBerge: But your memory is that it was big.

Clausen: Well, it proves the point. That's the philosophy of Sören Kierkegaard, the Danish philosopher, who makes a point similar to what Satchel Paige once said: "Don't look back. Someone may be gaining on you." Sören Kierkegaard says that you cannot repeat an experience that you're very fond of, because in memory it expands and blows up, and even becomes kind of fictional. I'm not sure that's the right translation of Sören Kierkegaard. I was a philosophy major in college. I loved philosophy and to this day I still do. Kierkegaard's point was that you couldn't repeat something and expect to get the same experience. And usually you're going to be very disappointed.

I can remember climbing up the stairs of that house as a baby before I could walk, and then tumbling down. I remember Christmastime and being alerted that Santa Claus was coming. So we'd be upstairs watching the front while my Uncle Gunnar would go in our basement, get into his garb, and then walk around back and come up the sidewalk yelling, "Ho, ho, ho," in a Norwegian accent. [laughter]

I guess you'd say I had a very rich childhood.

LaBerge: It sounds like it. You really got to know your aunts and uncles and your grandparents.

Clausen: Oh, yes, that's exactly true. And we still try to continue that today. We have two sons and four grandchildren. But it's more difficult now than it was back then. There are greater distances to cover and there's more competing for people's time.

LaBerge: Tell us more about where you lived.

Clausen: We had, say, one quarter of a block, the school was on the other quarter of the block. The highway was a block off and not far away was a big water tower -- it was that kind of a town. Our garage was a detached one in the back, and we had a little shed back there. We had a big yard in which to play and a big garden where we planted potatoes, lettuce, beets, green beans, rhubarb and lots of fruit like raspberries, blackberries, gooseberries, mulberries, apples and pears. And we had a big side yard with a wire fence that we disguised with a shrub. On the other quarter of that block was the two-room schoolhouse, Oakwood. I could crawl through a hole in the fence and go and be in the schoolyard.

LaBerge: So you moved downtown. Did you sell the house?

Clausen: No, we kept the house. We only did that for, I want to say, two winters, because for my seventh and eighth grades, I went to Hamilton Grade School, which was in a two-story building that held all eight classes, and they were bigger classes. I think my seventh grade class might have had fifteen to twenty kids, somewhere in there. Back at Oakwood, the total number in all the grades might have been fifty at the most.

Then I went to high school and I had a big class. There were twenty-nine in my graduating class in high school. I remember that.

LaBerge: And was this Hamilton High School?

Clausen: It was called Hamilton Community High School – "Community" because it brought in students from not only Hamilton but from other small communities. Hamilton Community High School might have had 120 students in the school, with twenty-nine in my class. I was the valedictorian of the graduating class.

LaBerge: Did school come easy for you?

Clausen: I had to work hard in school. I have strong memories of that and also trying to be well disciplined. I always got good grades. But getting good grades was important to me. That was inculcated in me by both my mother and my father, but principally by my mother. Not that my father didn't care, but he was more off-handed, and I was much closer to my mother growing up than I was to my father. My father I respected.

When I was in high school, I played football, but my knees started to dislocate and get out of joint. So I wore elastic bands around both knees. I suffer now, because I had to have my left knee joint replaced a few years back after I retired from BankAmerica as the CEO. So I have paid the price a little bit.

LaBerge: You played football in high school. What were your other activities?

Clausen: Well, I played intermural basketball. I did that in college too; this was fraternity basketball. I gave up football. I was on the debate team, and I appeared in plays. I even appeared in a high school operetta, but I was a lousy singer and I hated to do it. I was very timid. I had an inferiority complex. And I still do today, may I confess? Not that I have a low esteem of myself, because I don't. I am just as arrogant as the next guy. But I'd say I am more humble than others of my peer group growing up, and I still am. That comes from fighting an inferiority complex. My own analysis is that I'm not built to be a leader. And yet, when my button is pushed, I rise to the occasion.

I particularly remember my feelings in high school when I had to walk across the basketball gym floor. At Hamilton High the gym floor was in the center of the building and the classrooms were built around it. The gym had these huge bleachers on the wall that could probably seat 125 people. I remember I had to walk across that floor and pass people in the bleachers to get from one class to another. I didn't like to walk across that space alone, because I felt that everybody's eyes were on me. And I still suffer from that today.

Suffer is too strong a word. Yet even today, I prefer not to give speeches and be the focus of attention. Sometimes I have to, even though I'm no longer the center of attention. But because I have been something people consider important, they say, "Wow, you were the CEO of BankAmerica Corporation!" And "Wow, he brought the bank back!" (which in truth no one person can do. You've got to be lucky as well as experienced, and put your trust in a good team.) But even today people say, "I want to hear what Tom Clausen says."

I don’t quite know where this sense of inferiority comes from as it wasn't in my family. My mother and father never belittled me in any respect. On the contrary, my mother was constantly encouraging me, and my father was an excellent role model. He worked hard and he was in demand as a public speaker. He also had the grey matter to go along with it, and he wrote beautifully. Of course, I am terribly biased and prejudiced.

Favorite Subjects in School

LaBerge: What were some of your favorite subjects in school and who were some of your favorite teachers? What kind of influences did you have?

Clausen: Well, there are many, and I've got many rich stories to tell about that. I gave you the grade school teachers. Miss Kindred and Gertrude Knowles in Oakwood. I didn’t mention Stella Choate who was a marvelous teacher. Tough, but kind.

LaBerge: What did she teach?

Clausen: Boy. I want to say, she taught seventh and eighth grade math. And I had a good math teacher in high school. His name was Leroy Knoeppel, and you pronounced the “K.” So math has always been a good subject for me.

I remember my Latin teacher, Miss Callahan. She also taught grammar. I remember Miss Berry who taught typing. I've never been a great typist, but thanks to her I can touch-type today even though I haven't tried typing for quite some time. But give me a half hour and I could pick it up again.

LaBerge: So you took Latin and another language too?

Clausen: I took Latin in high school. In college, I took three languages. I took Spanish, French, and German. But you know how they taught language in those days: you start with conjugating verbs. And that's not how babies start to learn language. You don’t say, “First, you've got to conjugate the verb before you can start to talk.” No. So I can read it, but I can't speak a word of it. Also, my ear is so dull, I couldn't pick up any of it. It was kind of a waste of time.

The way they teach language now is conversational. That's the way one of my sons learned Spanish. He got his undergraduate degree from the University of California at San Diego, but he had to have a language. So we sent him to stay one summer in Spain, where you live the language and you don't speak English. He read Spanish newspapers, took part in

conversations in Spanish and immersed himself for the summer in the language. And he learned to speak Spanish. They didn't do that back in the forties.

I had a wonderful English teacher, too, in high school.

LaBerge: Did you like English?

Clausen: Yes, I was good in English. When I started out in college, I declared my major to be philosophy, because I liked it so much and I still do. Plato, Aristotle, Kierkegaard, Schopenhauer -- all the wonderful old philosophers. And I had a minor in English and psychology declared.

II. The War Years: Carthage College and the Army Air Corps, 1940-1946

Graduating from High School and Going on to College

LaBerge: You had some scholarships, is that right?

Clausen: Yes, I had a number of scholarships. That started when I was the valedictorian of my graduating class in Hamilton High School and the *Readers Digest* gave a twenty-five-dollar-a-year scholarship for the valedictorian. It had to be a scholarship, because I didn't get the cash!

LaBerge: Was college a natural progression for you? Did you always expect to go there?

Clausen: When we were growing up, there was no doubt in my mind or my sister's mind that we were going to go to college. That was just natural to us because we'd been taught to study and work hard to improve ourselves. And we'd been exposed to so much culture and learning while growing up that going to college was in the marrow of our bones.

The EX Club and Cultural Experiences

Clausen: Did I tell you about the EX Club?

LaBerge: You mentioned it, but you didn't give much detail.

Clausen: The EX Club was an elite club that my father and several of the Carthage College professors started. It was a purposeful club that fostered lots of intellectual discussion and conversation. I can remember that when the EX Club met in our two-story house, I would sit up on the long balcony in my pajamas. No one could see me, but I'd listen to the men talk. I got my first taste of Einstein's theory of relativity being discussed by my father. Professor [John O.] Evjen was there; he taught philosophy and religion at Carthage College, because Carthage was then a Lutheran-run school. Today, it is still Lutheran-related, but the board is not controlled by the church.

My father was an intellect. I always thought so and I still do. He was very bright and had a wide range of interests. So I would say the business elite from Keokuk, Hamilton, and Carthage would meet periodically to discuss heavy subjects. It may have been a very rural community, but it was not a backward community by any stretch of the imagination. Although we only rarely had performing arts in Hamilton, we would often travel to Keokuk

or Quincy to hear symphonies when they came through. As I grew up, I really appreciated that part of becoming a whole citizen, and I still do appreciate it.

My mother and father would drive us down to Quincy, and usually we'd take a couple of our friends. I'd take a boyfriend and my sister could take one of her friends, because four kids could fit in the car along with two adults. We used to look forward to that and we went to concerts in Quincy maybe twice a year. My father also published advertisements on the motion pictures being shown in Quincy and so we had passes to get in for nothing. The theater's advertising might not have cost them anything, either. It was barter, all the way through.

LaBerge: Back to your father's EX Club. Any other memories besides hearing about Einstein's theory of relativity? That's a wonderful picture of you sitting up there, listening. I think a lot of kids hear things when they think they're not supposed to.

Clausen: Well, my mother and father would have parties, and my sister and I didn't want to be excluded. So we had a lot of fun. Not that we dropped water bags over the rail or anything like that!

I remember that my father was a prolific reader. He loved books. So do I.

Love of Books

LaBerge: What were some of your favorites growing up? Do you remember?

Clausen: Well, all the series. I remember I had a subscription to *Boy's Life* addressed to me. I used to read that from cover to cover. But the usual, *Heidi* and Robert Louis Stevenson, *Treasure Island*, the whole thing. I loved Westerns. Who was the author of Westerns? Grey something.

LaBerge: Zane Grey?

Clausen: Zane Grey. My father had a whole series of books by Zane Grey. They always had the same theme, but they're wonderful to read, and I could knock one off in a long weekend. I read a lot and I read voraciously. The lights were supposed to go out at eight or so, but I'd pull the covers over me and I'd read with a flashlight. My mother caught on to that, and she would come in and yank the covers off of me and confiscate the flashlight, so I had to go to sleep.

I still love to read. I think that's one of the parts of growing up that current youngsters miss. They sit in front of the television and they don't have to think. It's passive participation. I remember my father would play games with us, particularly in the summertime. Twice a week, my sister and I had to come to the table with a new word, and explain what the word was and use it conversationally. It took a little research. We'd go through a dictionary and run down a word that we might have heard, but never had used. We had conversations at the dinner meal. So that was part of our education.

Bestemor died when I was a senior in high school and Bestefar moved in with us. My mother was not particularly happy with that, but he had his evening meals and Sunday meals with us, and we all had conversations together. My grandfather was not terribly comfortable with English – he was born in Norway and spent his adult years there -- but my father and grandfather never spoke Norwegian at the table when my mother and my sister and I were there.

One consequence was that I didn't learn Norwegian other than a phrase or two. I can remember that my grandfather, at the end of the meal, would say something that sounded like, "Mange takk for maten," which meant, "Thanks for the food." I was taught to say, "You're welcome." That was the extent of Norwegian I could understand.

But our life was rich with books. I was always brought up around books, and I now have an extensive library myself. The books that I read as a youngster I now have in leather. I guess that's an ego trip. Even now, I'm about to send away for Henry Kissinger's autographed four books that recall his Washington and White House days. He's going to put out 2,000 of these. I know Henry; I know him well. It would be nice to have those books in my library, so I'm going to send away for them. I really don't have any room for more books -- I've got them coming out of the eaves -- but there's some great comfort…

LaBerge: Oh, there is.

Clausen: …about having books. Thinking back to our growing up period, I would say we had a very rich environment in which to grow up. With this kind of stimulus, I knew from day one, and so did my sister, that we were going to go on to college.

Choosing Carthage College

LaBerge: Okay. Then how did both you and your sister choose Carthage College?

Clausen: Well, it was twelve miles away and close at hand in Carthage, Illinois, the county seat of Hancock County.

LaBerge: How did you manage the new expenses? Did you work in college?

Clausen: Yes, I worked my way through college. And I tried to hold down expenses. I lived upstairs in a house just two blocks from the campus and I think the room cost me three dollars -- I guess it was maybe three dollars a week. I shared the upstairs front room of a house owned by the Espy family who had two children – an older son who was not in college and a daughter who was in my sister's class. She was a very pretty young girl, but I can't remember her name. There were four male students living upstairs along with John, the son. Since there were four bedrooms, I had a roommate, so we had the biggest room. All the others had their own room.

My roommate and I got jobs teaching flunky English to football players. We taught them all about prepositions and dangling participles and how to conjugate verbs. You know, in high school I got straight A's and in college I got mostly straight A's. Except for tennis where I got a C -- the only C I got in my undergraduate work! [laughter] It just crushed me. So I said, “I'll show them!” I've never had a tennis racket in my hand again. Which shows the arrogant side of me. That C just ruined what otherwise would have been a very good record.

LaBerge: Did you have that teaching job as a freshman?

Clausen: I think I got that when I was a sophomore. Which was worth maybe -- fifty dollars a semester? I also waited tables my freshman year, which paid for half of my board. I think it cost $180 a semester for food on campus, and by waiting tables it only cost me ninety. I want to say the tuition was $180 a semester, so that's $360 a year.

All the upstairs students were pre-ministerial except me, and they were planning to go on to seminary after they graduated and become ministers. Here was me -- going to be a philosopher. Looking back, I wonder what in the world would I have done with a major in philosophy?! My close friends at Carthage were mostly pre-ministerial students and they’re now preachers, men of the cloth. In my second year, my roommate was George Theodore Ludwig Jacobson, a terrific young man who was taking his pre-

ministerial education and later became a Lutheran pastor. O. Garfield Beckstrand II had the middle room. Don Wagner had the room at the end of the hall. Don has lived over in Walnut Creek for forty years. He just got an honorary doctorate degree from Carthage College, sponsored by Dr. Jerry Brauer of the University of Chicago School of Theology and myself.

George Jacobson and I worked as janitors at the Lutheran church. That got each of us something like fifteen dollars a month. Carthage had a population of, I want to say, 3,500 at that time and this was the only Lutheran church in town.

The pastor of that Lutheran church, Pastor [Charles F.] Landwere, was also an adjunct professor in religion at Carthage College. And he would host three or four of the pre-ministerial guys and myself, and we'd have some great, great discussions about philosophy. That's how I learned to drink in college. The pastor would draw the shades, we'd get a big jug of beer to last us for the evening, and we'd start our discussions. They're all pastors now in the Lutheran Church and I was the only "Christian" among them! These were all smart, smart people. A couple of them in particular were brilliant and really succeeded intellectually in the world.

I clerked in a grocery store on Saturday afternoons. It was the biggest grocery store in town, right downtown on the square that held the county courthouse. I attended classes in the morning and went to work in the afternoons for about a dollar an hour. So that got me six dollars every Saturday.

I had passes to go see movies at the Woodbine Theater, because they advertised in my father's newspaper, and they got to know me. Woodbine was a nice theater compared to the one in Hamilton. It was bigger and plusher. My father would get passes and shoot them over to me. A Coke in those days cost five or ten cents. So if I had a date, it cost me twenty cents at most to go to a movie every week.

Working at the Bowen Newspaper

There was a little community named Bowen about fifteen miles away. It had a weekly eight-page newspaper like my father's, but then the owner lost his linotype operator to the war. Since he knew my father he called and asked him, "Do you know somebody who can pick up the job?" My father asked, "Well, how much do you do?" He said, "I have four pages ready-print." Ready-print is the term for printing plates that a newspaper buys already prepared. Rather than current news, they contain articles on

things like hog disease or corn or the weather and drought, subjects hopefully of interest to the farm community. In the trade it's called filler. Since the owner had an eight-page paper, he still needed someone to typeset at least four of his pages. So for two semesters, I worked there, too. His weekly paper came out on Friday and after my classes on Tuesday or Wednesday, he'd pick me up and I'd eat a sandwich in the car while we drove to his newspaper plant. Then I'd work until three or four o'clock in the morning and put out his newspaper. And that paid pretty good money. I want to say that was a dollar an hour, but I could get up to fifteen bucks, and once in a while he'd slip me another dollar or two. As I think back, I was never so cash-rich in all my life as I was when I was working my way through college.

My work experiences set the pace of my life. I've always worked. I've always worked hard.

Dating at Carthage

LaBerge: You mentioned briefly that you took dates to the movies. Did you have any steady girlfriends?

Clausen: Yes, I had girlfriends at Carthage. One in particular I remember. Her name was Bonnie Lovejoy, from Burlington, Iowa. She was in my sister's class.

LaBerge: So, an older woman.

Clausen: Bonnie might have been a year older than I was. I was kind of smitten with her. I can still remember going to a dance on a Saturday night at Carthage. Chuck Landwere, the pastor, was the chaperon and he told me he could see Bonnie and me "bonding" together. He was referring to marriage, and I didn't like to hear that. At that age, I had no strong motivations for marriage and setting the rest of my life in stone. No way! Later, when I was in the service and I got assigned to Chicago, Bonnie came up one weekend on her own. I must say that proved to be the wrong move. I don't like aggressive women, and I cut the cord. To this day, I do not like aggressive women. They absolutely turn me off.

Reaction to World War II on Carthage College Campus

LaBerge: America entered the war while you were in Carthage. Do you remember where you were and what you were doing on the day you heard that Pearl Harbor was bombed?

Clausen: That was December 7, 1941. I want to say it was a Sunday, right?

LaBerge: Yes. That's what people have told me.

Clausen: Do I remember what I was doing on that day? No. We all had radios in those days and I'm sure we talked about it. But it might have been two days later when we got the *Chicago Tribune* and could read the details. Very sad.

LaBerge: Do you remember the reaction to the war on campus?

Clausen: Very somber, very sad. I do remember in 1942 having a Sunday evening speaker at Carthage in Denhart Hall, the women's dorm and campus dining room. The speaker was a pastor and the audience was mostly students and perhaps some people invited from the business community. This fellow made remarks about the war and about Hitler and Nazism that sounded pro-Nazism and offended my classmates and me terribly. We were taught and believed in a democratic system, so we walked out in a visible display of our disapproval and disgust with what he was saying. That experience played heavily on my mind for a while. Maybe it was the first time I publicly demonstrated, strongly and openly, in support of my beliefs. This fellow offended me terribly! I was disappointed in the governance of Carthage College for not having the courage to say, “Wait a minute. We're not going to tolerate that on our campus.” I remember that very vividly.

Into the Service

LaBerge: The war affected you in another way, didn’t it? You were called into the service.

Clausen: I was trying to get through college in three years and graduate before I was drafted, so I also took one session of summer school. But the war started -- we got into it in '41 – and I got called into the service in February of '43, just before I would have graduated that spring.

There was a wonderful professor from Carthage who taught Greek. He got drafted before I did, and he ended up doing K.P. -- kitchen police. He was a Ph.D. in Greek. This was early 1943 and I decided that it looked like a long war and I didn't want to do K.P. So I was lucky enough to get into a pre-meteorology program. This is anecdotal, not factual, but let's say the Army Air Corps or the U.S. Army needed 8,000 meteorologists, because

the war was spreading in Asia, and Europe, and where was it going to spread to next?

So they put a huge crush of people who didn't have any background into a training pipeline called a “C” program. It was maybe fifteen months long. If you had some college, after these fifteen months in the C program, then you moved to the B program, which could be another twelve months. Then perhaps you got to enter the A program which was like six months long, after which you graduated as a second lieutenant meteorologist. That’s not precise, but it gives you the sense of it.

I got put in the last month of the C program and moved into the B program at the University of Chicago. We studied differential calculus, integral calculus, vector calculus -- wonderful stuff. That's three-dimensional calculus. Marvelous. We studied geography, because you had to know which way the currents and winds moved. All of these studies were accredited at the University of Chicago. So I tried to graduate from the University of Chicago. But I didn't meet the criteria. It turned out that you had to have a one-year residence in Chicago to earn a degree. I'd been there for longer than that -- for fifteen months -- but they said I wasn’t there voluntarily. I was there because the Army had put me there. That was true.

Clausen: So then I just changed my major from philosophy to mathematics (with minors in English and psychology) and dumped the credits back to Carthage, which would accept the University of Chicago credits, and I graduated with my normal class. I’d entered Carthage College in 1940 and would normally have graduated in the spring of 1944. My original intention had been to attend the summer session and graduate a year early. But because of being yanked into the service, I'm a '44 graduate of Carthage College after all.

LaBerge: That’s a good overview. But you had a lot of different assignments in the service, didn’t you?

Clausen: That’s true. By the time I finished twelve months of the B program, they had perhaps 5,000 meteorologists -- they’d put 50,000 or so trainees in the tube – and they felt they had enough. So I never got into the six-month A program and I didn't graduate as a meteorologist, although I got all the background for it. Then I was given some choices. I wanted to become a navigator in the Army Air Force, but my eyes disqualified me. They only took people with perfect eyesight, but when I was in grade school, I’d had scarlet fever and that affected my eyes – so I ended up wearing glasses.

But I was accepted for assignment in the Army Air Corps Communications Program. So I was sent to Yale where I lived in Wright Hall, just opposite the new Haven green. The training program was sixteen weeks long. You had to take an exam every week, and if you passed the exam, you could move on to the next week. There were sixteen exams. You could flunk twice without being kicked out of the program, but if you flunked three times -- three strikes and you're out! You become a marching G.I. or a member of Kitchen Police. I didn't get any strikes! And I made the mistake of passing every exam! So I became a second lieutenant and an instructor! Here I was -- still thinking of myself as a math major and only temporarily in the service -- and now I was selected be an instructor in the Communications Program I had just completed.

I remember Howard Goldsmith, who had been my buddy at the University of Chicago, and we both went on to Yale, where neither one of us was smart enough to fail any course. Only three people out of maybe eighty passed them all and the three of us all ended up as instructors. After that, we were assigned to teach pilots from the European theater who were back stateside for a little R & R, and who might soon be on their way to Asia to fight Japan.

Chanute Field, Urbana, Illinois

From Yale, we went to Chanute Field in Illinois, as part of the Army Air Corps.

LaBerge: Was that near home?

Clausen: No, Chanute Field was near Urbana, Illinois. It was a three- or four-hour train trip to Chicago. I used to make that trip regularly because I was dating a young lady in Evanston, near Chicago, whom I'd met when I was in the Pre-Meteorology program at the University of Chicago. She was a civilian student. Her name was Priscilla Joyce and I thought, what a coincidence! My sister's name is Joyce. And Priscilla had a brother named Alden -- John Alden. I thought, Wow! This really *is* a coincidence. Maybe it's more than coincidence. Maybe we're fated. She was a lovely young lady, really bright, intellectually sharp, and I've always admired that quality in others. I can't compete with it myself, but I've always liked smart people. I felt if I associated with them, hopefully a little bit of that would rub off on me. And Priscilla challenged me intellectually

So Priscilla and I started going together. On weekends, I'd take the train from Chanute up to the University of Chicago to see her. We'd even go to

church together with her family. I liked to do that, because after church Mr. Joyce, the father of the family, had a tradition of mixing Manhattans and serving them while Mrs. Joyce was fixing lunch. I still remember the taste of those red cherries with sweet vermouth.

The Joyces were a well-to-do family. Mr. Joyce was an executive of an advertising firm. And I began to get the sense that my life was being planned. By then I knew that when I got out of the service, I wanted to be a lawyer, but I still wasn't ready to be roped into a personal relationship. Yet I started to see the signs rather visibly. Even the brother John Alden said, "It could be a long war, and what you really ought to do is jump in and get married." That turned me off, so I wrote a "Dear John" letter to Priscilla. It was a very tough letter to write. Later I called it my "bound to depravity" letter. But in retrospect it was absolutely the right decision for me to make.

Through the years, I've been fascinated with the subject of depravity, and I've had deep discussions on it with some of my friends, particularly Robert Paul Roth, [a 1941 graduate of Carthage College] and a pastor of note in the Luther Seminary in Minneapolis. He's a person I admire very, very much. I remember him arguing, "You have power. You're the CEO of the biggest bank in the world and the most profitable non-government-owned bank in the world. And therefore, it's power to do evil." I told him, "I suppose that's true, but in this role you also have the power to do good. So I'm not bound to depravity." Years later we met again and we picked up that conversation right where we left off, just had as if we hadn't been apart for all these years. Bob Roth is that kind of a person and he's always managed to challenge me. He's a terrific individual and I have great respect and admiration for him. I can remember once that after we'd been together, I was going to fly to Chicago and he was going to fly back to Minneapolis via Chicago. When he found out my schedule, he changed his own schedule and also his class of travel so he could sit with me up in first class. I've regretted that I didn't think to change my own ticket to sit back in economy with *him.* That was a slip on my part.

You remember my mentioning my first roommate at Carthage College, Oscar Garfield Beckstrand II? Well, Bob married his sister, Margaret Beckstrand, who was in my sister Joycelynn's class at Carthage.

Reaction to the End of the War, 1945

LaBerge: When the war came to an end, you weren't released immediately, were you?

Clausen: No. Just before the war actually ended, I was assigned to the West Coast to a JASCO unit, the Joint Assault Signal Company. They had communications specialists from the Army's Signal Corps and Field Artillery, the Navy, and the Army Air Corps– that was me. The U.S. was getting ready for the invasion of Japan. I think the first time a JASCO unit was used was on the Normandy invasion. There were a lot of casualties. JASCO teams were the critical communications link between the assaulting units on the beach, the ships offshore, and the Army Air Corps. JASCO soldiers would go on shore in the second or third wave and spot where the troops were, where the enemy was, and call for the cannons to fire from the ships offshore, string the wire communications equipment on shore and connect with the planes overhead to tell them where to drop their bombs. Fatalities in JASCO were pretty heavy. But JASCO specialists knew how to read maps and topography and how to communicate. So now we were getting ready for the invasion of Japan!

In August of 1945 I was billeted in the Coronado Hotel in San Diego. One day I was on my way back from Camp Pendleton north of San Diego and on the car ferry to Coronado when news came that the war was likely to be over. The U.S. had dropped the atom bomb and Japan was in ruins. When word came on the radio, the ferry stopped in the middle of the channel and I never saw so much booze break out of the glove compartments from the cars on board. The passengers were mostly civilians and they were so friendly to those of us in uniform. I was a second lieutenant so my bars were showing. I recall there was a lot of kissing going on.

I remember hearing H.V. Kaltenborn on the radio. He was the Walter Cronkite of those days. He was a commentator in the early forties about the war, and he had a distinctive voice. The formal surrender of Japan came soon after.

Later I got to know General Jimmy Doolittle, who led the first bombing raid on Japan back in 1942. He was a member of Pelican Camp up at the Bohemian Grove. He just died. He was a terrific man, a terrific general, and a terrific leader.

Assignment to the 53rd Weather Reconnaissance Squadron, 1945

LaBerge: You still didn't get out of the service right away, did you?

Clausen: Well, after we dropped the bombs, there was no longer a need to invade Japan. Then almost immediately -- within twenty-four or forty-eight hours -- orders came through for me to join the 53rd Weather Reconnaissance

Squadron headquartered in Manchester, New Hampshire. The 53rd did long-range weather reconnaissance. There were four flights in the squadron– in Goose Bay, Labrador; Keflavik, Iceland; West Palm Beach, Florida; and a unit on Santa Maria Island in the Azores.

My orders read to report to Manchester where I would receive further orders on what to do. When I got there I found I was assigned to be the communications officer for the squadron on the air bases in the Azores, wherever that was. I was about twenty-two years old. (The oldest man in the flight was something like twenty-five. He was a captain and a pilot.) Communications officers did not get flight pay, so I was getting perhaps seventy-five dollars a month; not very much, but enough to save a little because everything else was provided -- your clothes, your meals. All you needed was spare change.

There was stress on these flights because of the weather and all. When the flights were over, there was always a happy hour at the end. I remember a fellow named Smagorinsky. Every time he got up in the air, he threw up. So we call him “whoopi cups” Smagorinsky!

LaBerge: This really was his last name, Smagorinsky?

Clausen: Smagorinsky was his last name. I haven't thought about these things in fifty years. Every time he went up, even in smooth weather, he got sick. But I admired him, because he kept going up -- every other day. [Joseph Smagorinsky served in the Army Air Corps during WW II, received his Ph.D. from New York University in 1953 and later became the first director of the Geophysical Fluid Dynamics Laboratory of the National Oceanic and Atmospheric Administration. – ed.]

I flew a lot when I was in the Azores because I loved to fly. We flew observation legs of 1,000 miles, so we'd fly out 1,000 miles at 1,000 feet and come back at 500 feet taking measurements at both. There were nine islands in the Azores. Lajes Airfield was controlled by the British. At the time, Lajes was talked of as having the longest runway in the world. That could have been folklore. It was 10,800 feet, and that was a long airstrip in 1945.

We were flying stripped-down B-17s. The pilots were up in the front and down below the flight deck was where the navigator, the communications officer and the flight engineer were stationed. That's where I sat when I flew, and I flew maybe every other day without getting flight pay, because I just enjoyed it. What's there to do on the ground? All the equipment was

working, and I had a staff of three or four to maintain it. The squadron had about forty-five people assigned to it. Our highest rank was a captain. There were a couple of first lieutenants and maybe three second lieutenants. The rest were sergeants, corporals, and on down the hierarchy.

It was very lonesome and dull on Santa Maria. It was a small island, perhaps fifty square miles. The only flat place that a B-17 plane could land was where our squadron was located, and we kept several B-17s there for weather reconnaissance. To predict weather, one has to know what the air pressure was and what direction the air was moving. I mentioned that the plane might fly out at one elevation and the meteorologist would take the pressure. Then we'd come back on generally the same route but at a different altitude, and then compare the different pressures. Those measurements could be used to predict the movement of weather. I'm not a weather guy, but that's my understanding. I do remember that those of us in the Azores did our R & R in Gander, Newfoundland.

LaBerge: That's kind of an interesting place to do R & R.

Clausen: Well, the service had a rule that if anybody with over a certain number of months of service -- I want to say thirty -- came back to anyplace in the United States, they could not go out again. And I had over thirty months. So nobody was going to give me permission to go to Florida until they were ready to bring me back in the United States!

Hunting for Weather and Playing Bridge in the Azores

LaBerge: Okay.

Clausen: In the Azores, we had a lot of free time after we'd done the maintenance on the airplanes and equipment. That's where I learned to play bridge, and we played a lot of bridge. Looking back, I am very grateful for having learned, because I've enjoyed playing bridge through the years, though I haven't had time to do it much. I only play once a year. Every New Year's Eve for the last twenty-five years or so, a group in Hillsborough has been playing together. It's always on New Year's Eve. One of the four couples hosts a dinner at their home, and then we play until New Year's and beyond. It's a really great event. I still come in one, two, or three on that, although I only play once a year. But it's like learning how to type.

LaBerge: You never forget.

Clausen: You never forget. I also read the bridge column every day, and that's how I keep up.

LaBerge: Oh, that's more than most people do, I would say.

Clausen: Well, I enjoy it. I may spend fifteen minutes on it in the morning, and it's a little mental exercise to keep me up with the game. Because I've always enjoyed playing bridge, and Peggy is a very good bridge player. Now she's having memory problems…

LaBerge: You were telling me that.

Clausen: But she's still good, and she enjoys it. Yesterday she played with the same group of people with whom she's been playing forever. They're good close friends. We have a total of six couples in Hillsborough, all friends, and a group of us, four couples, are taking a cruise up the Danube in June.

So I learned how to play bridge in the 53rd Weather Reconnaissance Squadron and I became very good at it. As I said, there wasn't much to do on Santa Maria so we would read and sleep a lot. Then when weather came in around the area, we flew out and hunted it. We were weather hunters, and we would fly in tough weather. But overall, it was very boring. I call it kind of a wasted year and a half in the service. These were bright people in the weather reconnaissance outfit, and we weren't being intellectually stimulated. So I felt I was wasting my time.

Then, finally, I got called back to the States -- first to Manchester where the squadron was headquartered, and then I was assigned to West Palm Beach as a hurricane hunter. Hurricane season starts about July and runs primarily into the fall. That's my recollection of it.

I'd been in the service for three and a half years now, and then one day I got two weeks' notice that I was going to be discharged. I'd had plenty of time to think about the future, and I knew exactly what I wanted to do. That's when I applied to law school.

Parents Separate

Ever since I was in high school my mother and father had not been getting along too well and it was uncomfortable for all of us, including my sister and me. My mother really was the dominant member in our family, so much so that my father and mother could not get along. So they finally decided to separate and my father permitted my mother to file divorce

papers, and they sold the house and newspaper in Hamilton just before I was discharged in 1946. My father then went East to New York City. He could do anything. He was great with his hands -- he was a carpenter, a carver, a painter (we have loads of his paintings). He was also a very skilled writer. He worked for a time with Norman Vincent Peale at the Marble Collegiate Church on West 29th Street at 5th Avenue, very close to the Waldorf Astoria. Norman Vincent Peale was very popular then and for a long time after, and I attended a good many sermons. My father introduced me to Norman Vincent Peale and I remember him as a very fatherly figure.

Then my father became a syndicated columnist.

LaBerge: Do you know what papers he appeared in? Or how many papers?

Clausen: I don’t know the names. I want to say, with no great confidence that his column appeared in maybe fifty newspapers. I mentioned H.V. Kaltenborn earlier -- he was one of the great commentators in those days -- and if he was selling his column to 700 newspapers, my father was selling to fifty. I regret that I don't have any of my father’s clippings, or at least I don't know where they are. I've got so many piles of stuff, particularly after moving from Washington, and I haven't sorted it out.

LaBerge: What did he write about?

Clausen: He wrote about common sense things. How would I describe it? Human relations, the social aspect of things. Once in a while he'd pick an issue important to the country and comment on it. It was the kind of style that we see favored today in *Readers Digest*.

III. Law School at the University of Minnesota, Moving to California, and Joining the Bank of America, 1946-1955

Going to Law School

LaBerge: So you set out to become a lawyer. What drew you to law to start with?

Clausen: Well, I wanted to be a corporate lawyer, because corporate work interested me. And I had learned from my family, and my father in particular, that an investment in education is an investment in the future, and you'll get it back tenfold. So get all the education you can. Corporate law particularly attracted me. Not divorce law and all of that other stuff. Criminal law, no. Not trial law. But corporate law.

LaBerge: It sounds like you'd really thought about it, probably when you were in the service?

Clausen: Oh, yes. Out on Santa Maria all I had was time on my hands while waiting for my partner to bid or me to double his bid. I had thought it out, and a lawyer was what I wanted to be. I also knew that the G.I. Bill was there to help pay for my education. So I applied to the University of Minnesota, which was kind of my home base since my mother and father were married there and I had relatives there. Also, I knew that the University of Minnesota had a first-class law school -- Dean Fraser was the dean, and he was “Mr. Property Law,” the recognized expert in the United States on Real Property.

I applied to Yale, because I had been commissioned at Yale and I was accepted, but it was for a deferred entry. This was now 1946 and the entry was for September of 1947. I figured I'd already wasted four years and I didn't want to wait another year, so I passed that up.

I also applied to the University of Chicago. I thought that was really the school I wanted to go to -- it would sound better on my résumé and I knew the University of Chicago, having studied there. But I had to take an examination. They gave me six titles of books on which to make a 500-word report on one of them. I hadn't read any of them!

LaBerge: Were these like a “great books” kind of thing? Not law books? Sort of like classics?

Clausen: Well, they were semi-classics. I think two of them might have come out in the prior ten years. But I hadn't read any of them. So I tried to bull my way

through by drawing the gist of the books out of the titles, which was very difficult because these days, authors choose strange titles. Just this morning I got a book written by a Harvard Business School professor on Bank of America's historic project that invented magnetically-encoded checks. It features one of my former colleagues here at Bank of America, Al Zipf. You must have come across that name.

LaBerge: Yes. Is the book about ERMA, or is that something else?

Clausen: Well, ERMA is the machine that read the checks. This book is about the check itself, and today 99 percent of the checks in the world are read by this magnetic ink system. But the title of this book is *Waves of Change* and my point is that you can't at all get the gist of what's in the book by the title.

I didn't pass that entrance examination at the University of Chicago. So I went to the University of Minnesota with my tail between my legs. Minnesota would accept me even though I would be starting late, maybe sixty days after the term started.

LaBerge: So you had to catch up.

Clausen: Yes. I was permitted to start late and catch up. I got a room in St. Paul on Sargent Street near Macalester College. For my second year in law school, my mother came to Minneapolis and bought a house, and I moved in with her.

Working During Law School

LaBerge: Did you have to work too, while you were going to law school?

Clausen: Yes. I had $800 or $900 saved up from the service and the philosophy in those days was that savings weren't to be spent. I had the G.I. Bill giving me about seventy-five dollars a month, but that wasn't enough to see me through. So I got a job clerking in one of the major law firms in Minneapolis. My day would begin with a visit to the campus cafeteria for a bowl of breakfast food before morning law classes. Then when I got out at noon, I'd run to my car because class was on one side of the [Mississippi] river and I had to get to Morley, Cant, Taylor, & Haverstock by twelve-thirty, which was on the other side of the river. (I had a car by then, a '37 Lincoln Zephyr, a 12-cylinder gas-guzzler, which my father had given me.) I'd eat a sandwich on the way and then I'd man the telephone switchboard plugs while the law firm staff went out to lunch.

After that, I'd be the runner from the law firm to the City Hall or courthouse, which was several blocks away. I'd file papers, appear in court and say the few words I was instructed to say, then pick up stuff at the courthouse that was to go to the law firm. I was a "gofer." I don't remember how much I made at the firm, but it was not very much – maybe fifteen or twenty dollars a month. I was poor when I went through law school.

An interesting thing is that Hubert Humphrey was the mayor of the city at the time, and he was frequently in the building. And every time Mayor Humphrey would get on the elevator, he'd shake everybody's hands. I must have shaken his hand hundreds of times in the two years I was at the firm.

And then I got a job as a payroll clerk for Toni -- a hairdressing…

LaBerge: Oh, Toni Permanents.

Clausen: That's the one. The Harris brothers, Yale graduates, founded Toni after the war, maybe in the late forties. This was, I want to say, 1947 when I picked up this job, and it paid better than the law firm. I remember there were four or five of us who applied to Toni. When the Harris brothers realized that I had gotten my commission at Yale, I was like a blue brother to them and I got the job. This was at their manufacturing plant where they were putting their concoctions of sweet-smelling stuff into tubes and jars. They must have had over a hundred people on the payroll, and the books were in a mess. They had a regular payroll clerk who wasn't terribly bright and was all mixed up. So the Harris brothers asked me to put it back together, believing that since I'm in law school and I was commissioned out of Yale, I must know something. I told them I'd never had any experience at it, but they said it was just "common sense." That's where I picked up the term that drives Helen and my wife Peggy over the edge: "Life is nothing more than common sense." But that's all it is, just common sense!

So that's what I did. I'd get off work at the law firm and then head to a tavern nearby where I could sit on a stool at the end of the bar and get a boiled potato, pike, some coleslaw and a glass of milk for seventy or eighty cents or thereabouts. Wonderful. Pike is -- do you know?

LaBerge: I do know. I'm a Midwesterner too.

Clausen: Okay. It's a white fish, caught from fresh water and deep-fried. I used to love it. That was my dinner. Then I'd head over to St. Paul where Toni had its factory. It was maybe six or seven miles and fifteen minutes away, and

I'd get to the job at six p.m. and work until eleven-thirty or midnight. That paid pretty well – maybe forty or fifty dollars a month -- so I could give up being the runner for Morley, Cant, Taylor & Haverstock. In law school, we sat alphabetically -- Clausen, Coughlin, and then came a guy by the name of Crassweller, who was married and had one child and was looking for something extra to do. So he took over my job as runner at the law firm. That's how I met his sister.

Don -- her brother's name is Donald Crassweller -- asked me if, since I had a car and he didn't, could he fix me up on a blind date with his sister? She was a schoolteacher coming from Los Angeles to spend the summer and we'd all go out to dinner someplace.

I was a woman-hater at the time, but I said, "Well, okay." I didn't have any ready cash since I had to buy books, clothes and gasoline, so Ruth Odegaard Crassweller, Don's wife, said, "We'll have dinner at home and then go to…" -- what's the famous museum in Minneapolis?

LaBerge: Walker?

Clausen: Walker, that's it.

LaBerge: So it would be a free date.

Clausen: So it would be a free date. Peggy was spending the summer with her cousin, Ed Cashin and his wife Beryl. At that time, Ed was a senior officer of the advertising firm Batten, Barton, Durston, and Osborn. They lived in Edina, which was kind of an affluent neighborhood on the outskirts of Minneapolis. That's where I met Peggy. I thought "Wow!" And I fell in love. I knew instantaneously that she was for me. And not only was she a beautiful young woman and a graduate of the University of Minnesota at Duluth, she also had rich relatives! I said, "That's for me. I want to marry wealth." As I tell Peggy, "I still want to hang around, because I know you've got it somewhere, and I'm not going to give up." Her wealth hasn't shown up yet, but I'm optimistic that it will, and I want to be around when it does!

I was really smitten with Peggy. So I doubled up on my courses in law school and I went to summer school. But it was tough. I had started late in law school, and I was doubling up while at the same time working my tail off for income. But my feeling was that I'd wasted half my life in the service, and now I had to make up for lost time. If you had an undergraduate degree, you could get through law school in three years.

But I got through in two years and a couple of months and I got my L.L.B. I didn't tear law school apart like I'd done as an undergraduate, but I got good grades and I was able to get on with my life.

The L.L.B. degree, by the way, is now a J.D., and here's a tale from when I was CEO of Bank of America in the early seventies. I got a letter from the law school saying they knew I had an L.L.B. degree. If I would send them seventy-five bucks, they would give me a J.D. degree, a doctorate in jurisprudence or whatever it is. I thought, you know, I'm not going to spend the seventy-five bucks. I'll just call it L.L.B. But they knew who I was, so they wrote me back saying that they had just changed it automatically. So now I have a J.D., and I saved seventy-five dollars. That's why I'm doing so well financially.

Telling Mother About Meeting Peggy Crassweller

The night I met Peggy, I remember coming home and waking my mother and telling her, "I think I've met the girl of my dreams." But my mother got angry and that hurt me deeply, because she didn't know this woman at all. But my mother looked on me as being the greatest this and the greatest that -- I was the smartest guy out there because I had become a second lieutenant at Yale and taught pilots and all of that. She really thought I was going to be walking on water. Looking back, I doubt if any girl I liked would have satisfied her. Sadly, she never really changed. This became a bane for me for the rest of my life, and I'll tell you more when we get to that point.

LaBerge: Okay. I know Peggy was teaching in California, so she must have gone back there from Minnesota. When did you follow her to California?

Clausen: After I graduated from law school on February 1, 1949, and I took the Minnesota bar. You just know when you do well on the bar, and I passed it. Then I got a job as a lawyer in a small firm of six lawyers in Minneapolis. I felt good about this because there were now zillions of ex-servicemen in colleges after the war, thanks to the G.I. Bill, and there were a lot of new lawyers. For example, I was part of the largest group that had ever taken the Minnesota bar. But this law firm accepted me and I was going to come in, not as a partner, but to join the practice. It paid, I want to say, $230 a month. Now that I had the financial basis to support a wife I went to California to pop the question to Peggy. I wanted her to marry me and come back to Minneapolis, where we'd live happily ever after.

But Peggy looked at me and said, “I'm not sure I want to spend the rest of my life with you!” In that tone of voice. Still, there was no doubt in my mind that Peggy was for me. So being in love and very stubborn -- I still am, though I hope I’m less so today – I decided to pitch my tent in California and take the bar exam there.

I went back to Minneapolis alone and then I drove my 1937 Lincoln Zephyr across country with the guy who sat alphabetically between Clausen and Crassweller in our classes. His name was John Coughlin. He's now married and down in Hollister practicing law. The Zephyr was an expensive car to operate and on our way west, it blew a gasket and had some other problems, and I had to pay for them. I got out here in May, but I arrived broke. Since the California bar exam wasn’t until fall, I needed a job for income. Although I thought I could find one right away, I couldn’t. I was getting pretty desperate. Then came the embarrassment of all embarrassments -- I had to borrow twenty-five dollars from Peggy!

Applying for a Job at Security Pacific Bank

LaBerge: Where did you apply for a job?

Clausen: Well, I applied at Security Pacific Bank.

LaBerge: I bet Security Pacific was pretty sorry in later years they didn't hire you.

Clausen: They really didn't know. I think they advertised a position and I answered the ad, because I felt I could do the job. I don’t remember exactly what the position was. I do recall that earlier I had taken an aptitude test that had been paid for by the G.I. Bill. I had wondered, “What am I good at?” I thought it would be interesting to have the test results read by somebody who didn’t know me or my background at all, who was impartial, who could tell me what I’m good at and point me toward a successful career path. The results said that I'd be good at training people. I'd be a good teacher. But I don’t recall that this job at Security Pacific had anything to do with that. My ambition at the moment wasn’t for a career – it was only to stay alive and eat! Security Pacific turned me down, saying I was overqualified for the job. From their perspective, that was just as bad as being underqualified, because if they hired you for a job for which you were overqualified, when you did the job and found it dull, then you’d be unhappy and leave. So I can understand their decision.

LaBerge: Perhaps the opening at Security Pacific was for a job in the general counsel's office…

Clausen: Well, it might have been for what we would now call a paralegal. And although I was not yet admitted to the bar, I had graduated from law school and I planned to take the bar later in the year, so I can see how they would consider me overqualified.

[Reference point: end of tape 8, side B, begin tape 9, side A]

Robert Van Buskirk and First Bank of America Job

Did I tell you about a guy named Robert Van Buskirk?

LaBerge: You told me, but not on tape, so I'd like to hear it.

Clausen: Bob Van Buskirk was a lawyer that I had met during the war when he'd also been stationed in Coronado as part of the JASCO unit. He had a Dutch ancestry and he was perhaps ten years older than me. He took to me, and on weekends when we could, we'd hop in his green Pontiac and drive to Hancock Park in Los Angeles where his parents lived.

I hadn't kept in contact with Bob when I went to law school, but when I came out to pitch my tent in California and needed work, I called him. Van was delighted to hear from me, and doubly delighted to hear that I had gone to law school.

LaBerge: Did he work for the bank?

Clausen: At this time in 1949, he was out of the service and had a position as a lawyer in Bank of America's Legal Department in Los Angeles. Hugo Steinmeyer was the head of the Legal Department in Southern California and Sam Stewart was the statewide head up in San Francisco. Bob and his parents lived in Hancock Park. He was, I would say, well to do. I drove by his house yesterday, since my mother also lives in Hancock Park. [AWC had visited his mother the same day. –ed.]

Bob wanted to help me get a job. I had never heard of Bank of America but he said, "You're eligible to come on the 'C' program, the college training program in Bank of America, to learn banking." I said, "Bob, I want to practice corporate law and when I'm studying for the California bar, I don't want to be studying how to be a banker too, because I'm just a simple farm boy and I can get mixed up here. But I do need a job." He said, "Well, how about counting cash in the Los Angeles Main Office?" So he got me that job.

That's how I first came to Bank of America -- counting cash in the Los Angeles Main Office vault, preparatory to taking the California bar exam in October. It didn't pay much and I needed to pay rent and gasoline and other expenses. I remember living on macaroni and cheese!

I'd get off work from the cash vault at five and then three nights a week, I went to a law review course -- a crash course to study for the California bar.

LaBerge: You didn't tell me about the class.

Clausen: Well, in every state the laws are different, and you have to know them. They're different regarding the grounds for divorce, the grounds for first-, second- and third-degree offenses – they're all different. California being a common law state, its laws were different too. Some of what I studied in Minnesota was the same as in California, but you have to know what the differences are. That's what I studied in this school.

LaBerge: Did you study at a public school?

Clausen: No, this was at a private school, and I applied under the G.I. Bill to have the course paid for. It's the Loyola of Los Angeles Law Review, a well-established school right downtown.

Dating Peggy Crassweller

Peggy was a schoolteacher and didn't have much to do in the summer so we'd date on the nights when I wasn't taking law review classes. I was wooing. I wanted to get married. She didn't. Well, she wanted to get married too, but not necessarily to *me* at that time! She's always had some doubts. Now she doesn't have them anymore. We're starting to get the hang of things now, after forty-six years. She's wonderful.

I had five weeks to study, and I frittered it away, because Peggy didn't go back to teaching school until maybe September 15. So we were out every free night enjoying ourselves. We did a lot of dancing that month in a big palladium down on the Santa Monica Pier. Lawrence Welk was there and I recalled him from the Aragon Ballroom in Chicago when I was at the University of Chicago. I kind of liked him; he played good dance music. Not "jumping around" kind of music, but music you could dance to. Tommy Dorsey played in Los Angeles at that time too. Later we found out that when I was stationed in California but before we ever met each other, Peggy and I had both been at the Hollywood Bowl on the same night when

Danny Kaye was the performer. I still remember that he turned off all the lights at the Hollywood Bowl. The moment was just electric. Of course, I'm from a little two-room schoolhouse in a small farm community, and this was big stuff.

Quitting the Job at Bank of America

I wanted to take the month of September off to study for the bar, so I applied for a leave of absence from Bank of America, thinking I might protect my job and the time I'd already served. Somebody said, "You must be Norwegian, because that's not only dumb, that's stupid. Why do you want to protect three months? There's nothing to protect. If you want to leave, leave, quit. If you want to come back, take your chances on being hired back." So I said, "Okay, I quit."

California was a Tough Bar Exam

LaBerge: Was there a big difference in the Minnesota and California bar? California is reported to be so much harder than most other states.

Clausen: Well, California has always been hard. It is now, and it was then. The two toughest bars in the United States, in my impression, are New York and California. When I took the California bar in October 1949, I think only 50 percent of all the applicants passed. I want to say that, of those applicants who had gone to law school outside the state, perhaps only 30 percent of those passed. This meant that if you had studied at a law school in the state of California, your chances were better, because maybe 65 percent or so of them passed it.

The exam was three days long and midway through I felt I had just bombed out. There were essay-type questions, not true or false, to give the evaluator an indication of the thinking capacity and rationality of the person. I did postmortems with my friends, asking things like, "How did you answer that third question?" Someone would say, "That was on constitutional law." Well, I knew that *I* didn't answer it from a constitutional law standpoint. I answered it from a *tort* standpoint. Therefore, I just knew I'd flunked!

So I called up Peggy and I said, "I give up. I lost it. I'm mortified, embarrassed, and ashamed, so let's go out and relax tonight." It was the tail end of the dancing season, and we went dancing that night at the palladium in Santa Monica. I told Peggy, "I butchered the most important question of the whole afternoon. I went down this path when I should have

gone down that path. I know I've just flunked." Peggy said, "Well, you don't know. If you answered the question wrong but you expressed great rationale, maybe that will be enough to get you by." The upshot was that I relaxed and we had a good time that night.

Peggy had given me her father's ink pen – he'd died when Peggy was in her early twenties -- so the next day I used the pen on the bar exam. And for some reason, the pen was like magic. It was driving me, and all I had to do was follow it along, because the answers to all the questions were coming out of the pen. I just killed them. And in December, I was notified that I had passed the bar and was admitted to practice.

When I passed the bar I again asked Peggy to marry me. She finally said, "Well, maybe you're smarter than you look and you might be worth hanging around. I'll try it for a short period of time." We were married on February 11, 1950, and we're still trying.

More on Tom's Mother

LaBerge: You told me earlier that your mother reacted strongly when you told her about meeting Peggy. How did she take it when you announced you were going to marry Peggy?

Clausen: My mother was dead set against my getting married and therefore she didn't approve of Peggy. She was so fixed on this that I didn't tell her when we were going to tie the knot and I didn't invite her to the wedding. I didn't want her to spoil it. We just had to go ahead without her. I'll be very candid -- even today I do not call on my mother unless Peggy is with me. And so last Wednesday when we went to Los Angeles to see my mother, Peggy was with me. My mother is still a very strong-minded person, even though she is totally reliant on help from her family, neighbors and friends. My sister sacrificed her life for my mother and she lives with her and cares for her.

LaBerge: With married life ahead, you needed a more permanent job. What did you do about that?

Clausen: The day after I took the bar, I came to Bank of America and applied for the C program, the college training program that took perhaps ten people a year. I was accepted and I started on October 13, 1949. The C program was the concept of Clark Beise, who sat in this very office before he died at age ninety just a few months before I retired in 1990. He had the idea

when he was the chief administrative officer of Bank of America and located in Southern California.

LaBerge: Was the C program up north also, or was it only down south?

Clausen: No, it was all over. When Clark started the program, he said, “We want to hire people that have a college degree.” Boy, that was heresy back then, because Bank of America was built with mostly high school graduates, with some few exceptions. Rudy Peterson was an exception because he was a graduate of Cal. And Clark might have been a graduate of the University of Minnesota before he became a bank examiner and A.P Giannini hired him in the 1930s.

But anyway, Clark had the idea we would hire college graduates and put them on a training program, an extensive horizontal training program lasting two years. Two years was a long time. Today, we’ve cut that down to eight months. Back then you did everything from stem to stern, from soup to nuts. You counted cash in the vault, worked in the trust department and sat in on interviews with clients arranging their wills. You sat in on loan discussions, worked Timeplan loans, appraised houses, you were on the books in branches, you worked at the teller window, sold savings bonds and cashiers checks, you learned how to balance on the adding machines -- all of that. I even repossessed automobiles and got shot at once from the pitch dark while repossessing a car way out in the San Fernando Valley. I had been assigned to a San Fernando branch with an employee who made his living repossessing cars. When car buyers were delinquent in their payments and weren’t going to pay, they still wouldn’t give you the keys, so we'd go get the car – sort of steal it back in the middle of the night. I learned how to hotwire cars. I think I still can! The C program was two years’ worth of manual and also intellectual work. It was a great experience.

LaBerge: You probably had more college education than other people in the same program.

Clausen: Yes, I was a little unusual for the C program, because I was not only a college graduate; I also had a graduate degree.

LaBerge: What happened when you finished all this bank training?

Clausen: Well, then you graduated. At that point in time, the organization might need operations officers or lending officers. Perhaps one of the graduates really knew his way around real estate lending and loved it, so he went

into real estate lending. The same thing applied to Timeplan lending or administrative work or positions in the branches. The C program was kind of a factory. There weren't very many people in it at any one time.

I have some memories from the operations side of the branch in particular. Every branch got checks from deposits and they would be sorted by a kind of machine. [Demonstrates:] You'd put the checks going to the East Coast up here; you'd put the checks going to another area down here, et cetera. And you always wanted to make a friend of the operator of this machine. (Perhaps 95 percent of them were ladies because companies were more sexist then than they are today.) When a check that you had cashed for fifteen dollars on that branch got to the sorting machine, you'd want this operator to sort it to Timbuktu so it would take a couple of weeks to get back to the account. That way you could live on the float. Those were the tricks that were actually played in those days. I never participated in them, of course!

LaBerge: No, you didn't even know about them.

Clausen: Well, I knew about them. [laughter]

LaBerge: Did you ever consider being in the Legal Department?

Clausen: No, but the Legal Department was after me. Hugo Steinmeyer was the head of the Legal Department down south and he knew I'd passed the bar and was now an attorney. He asked to see me and he talked to me three times. He lobbied to get me to come into the legal department. As he saw it, I would be an advantage. A lawyer coming in off the street didn't know anything about banking and had to learn it, but I knew quite a bit about the bank and banking already.

After the third talk, I knew that if I said "no" one more time, I was going to get fired. So I went to see Ralph Windsor, the head of Personnel in Southern California. The overall head of Personnel was up north. His name was Frank Risso and he used to be a driver for A. P. Giannini. Ralph Windsor was a real gentleman. Frank Risso was not. Frank Risso used to say about employees of the bank, "You know, if we get 'em for ten years, we got 'em. We own 'em. So you don't have to give them big raises. Where can they go? We got 'em." And I thought, what kind of philosophy is that? Boy! You and I have ten years and we're making peanuts, and we want to rise up in the organization and make more money – and this is the attitude of the head of Personnel? That was a terrible attitude, I thought.

Ralph Windsor wasn't like that. So I asked Ralph if he would go with me to talk to Hugo Steinmeyer, because I didn't want to be fired. I told Ralph, “I can't tell Hugo Steinmeyer that if I were to practice law, I would never practice in Bank of America and make those lousy wages. I would go practice law on the outside and make some real money. If I'm going to work for a bank, I want to be a banker.” You don’t find “bank” work in the Legal Department. Being a banker is all about making loans, taking deposits, and managing capital. That's what interested me. I was also still interested in corporate law and I thought that some corporate customer would recognize my talents. No one did.

LaBerge: You mean you were hoping that somebody from outside the bank would hire you away?

Clausen: Sure. When you get out of accounting school, you go to work for one of the big accounting firms like Ernst & Whinney or Peat Marwick. You get assigned to a company and you're on the account or you're a briefcase-carrier for the partner on the account. If that customer likes you, they make you an offer to join their company. And after three or four years, you're a financial vice president. That was the course I was going to take, because I liked the corporate side, the business side of law. It fascinated me. It still does.

And Ralph understood that, so I didn't go into the Legal Department. In fact, I spent a good chunk of my early years fighting to keep out of it. Also the Trust Department wanted me, because I not only understood banking and had been in the bank for several years, I was also a lawyer.

LaBerge: So you know trusts and wills and estates.

Clausen: That was the theory of the C program – to become familiar with it all. So I was attractive inside.

Assigned to the International Office with Francis Herwood

In 1951, when I was still in the college training program, I was assigned to the International Office in downtown Los Angeles, the closest branch to City Hall. It was a wonderful, wonderful banking floor, but it’s been torn down subsequently. Francis Herwood was the vice president and manager, and he became my mentor. Francis was a high school graduate, but he was a terrific banker. He had a very interesting background. He knew A. P. Giannini. He was a great sports lover and he went to the Olympic Games every four years around the world, and he’d done that going way, way

back. In the early days of the Indianapolis 500 race, the engineer rode in the car along with the driver. One year, the driver Peter de Paulo asked Francis to be his engineer in the 500 and Francis did that. He was sophisticated, smart, New England Irish and a wonderful man. He's very elderly now, but I still talk to him on the phone and keep tabs on him -- not very frequently, but I just talked to him a few weeks ago and I found he was a little under the weather.

Why Francis took an interest in me, I don't have the foggiest notion. But for whatever reason, he took a liking to me. Occasionally I got the feeling that people were a bit intimidated by my degrees: "Boy, he's not only a college graduate but he's a lawyer admitted to practice." But Francis wasn't awed by any degree or any person. Francis coached me about the basics and the fine points of banking and he introduced me to his friends. His friends were way up on top of the organization. Keath Carver -- do you know that name?

LaBerge: Yes.

Clausen: Keath was a good friend of Rudy Peterson's. Keath Carver was the top loan officer in Southern California. He worked very closely with Nolan Browning. Together they were Mutt 'n' Jeff, ham 'n' eggs, and Carver-Browning. Francis Herwood was in their league. Francis became the head of Loan Supervision, which included supervision of loans beyond branch limits, but also the new group that dealt with wholesale lending.

Francis really got me interested in banking, because he had some big accounts at the International Office, which he let me sit in on -- automobile dealers, some manufacturing companies, and a lot of the old-line Italian families that banked at that office. The number-two man there was George Cowgill, who later became manager of Burbank branch. I thought it was a wonderful experience to see how big loans were arranged, how they were negotiated and the tenor of the discussion.

I also learned a lot observing how Francis comported himself. He was excellent with customers. Although he was only a high school graduate, I never looked down my nose at that. I think I am egalitarian; in fact, I know I am. Just because you have a college degree doesn't mean that you are better than anyone else. One of the smartest people I've ever known couldn't read or write. He was a Saudi Arabian and he only made an X for his signature. Yet he could sit down and discuss the nuances of what happened on the Euro market that day, the ins and outs of rates, and what all of this meant to the bottom line. But he never had an opportunity to go

to college or university. My father was not a college graduate, but he was terribly smart and bright. He was self-made, which I admired. Francis Herwood had the same capabilities.

At the Lincoln Heights Branch for Two Years

I worked out of the Lincoln Heights branch for two years. At first I was an assistant cashier. Early on, this position was called pro. assistant cashier, which stood for probationary assistant cashier. Later, we did away with "probationary" because it was demeaning. Then I got promoted to "second man" – what's now called assistant manager in a small branch.

Buying First House -- 1951

In February 1951, the year after we were married, we bought our first home in the town of San Fernando, on Lazard Street, 609 -- boy, how about that?! I haven't thought of that number in a long time. It was a tract house and it cost $12,750. That's when I learned the hard news of not being eligible for a loan to buy the house. The lenders would only count the low pay I was getting from the Bank of America and they didn't take into consideration my wife's salary as a schoolteacher. Their credit review process figured she might get pregnant and would lose her income, so they said I didn't qualify.

I never forgot that and I changed all of that when I got up to the top of the mountain some years later. I thought that thinking was despicable. (When we adopted our son, it also cost a little money because we did it privately through a doctor. So I needed to borrow money for that too. That was in 1956.) The upshot was that I borrowed $5,000 from my mother to help finance the house on Lazard Street.

Teaching at the American Institute of Banking (AIB)

LaBerge: I have something that I haven't asked you about. You taught at the American Institute on Banking?

Clausen: AIB, the American Institute of Banking.

LaBerge: And I wondered how you liked teaching and what you taught.

Clausen: Oh, I taught commercial banking and I taught negotiable instruments. And I taught the legal aspects of both of those as they pertained to being a banker. Young bankers are encouraged to take courses from the American

Institute of Banking so they can become more proficient bankers. I would guess that in most cases, the fees or the tuition for the courses that full-time employees would sign up for would be reimbursed or paid for by their banks.

Since I was a lawyer admitted to practice in the state of California, I was asked, would I become a teacher? My classes would have twenty-five or thirty bankers, not only from Bank of America but also from Security Pacific and other members of AIB.

I enjoy teaching. I always have. There's a little bit of sermonizing in my thinking. One of my many faults is that I may over-counsel here and there. At least my sons think that I over-counsel!

LaBerge: It's hard not to do that with children, isn't it?

Clausen: Yes. But having an educated employee, more knowledgeable about the business, is a desirable objective for any employer and certainly for any bank. So I taught early in my career. Part of it too was that I needed income. Then as I moved on and got more responsible positions and moved into administration, I no longer needed to teach.

Working at the West Glendale Branch #433, 1952 - 1955

I worked for some time as what was called “second man,” second in command at West Glendale branch. It was a small branch, maybe a total of $20 million of assets.

On the Junior Advisory Council, 1955-1956

LaBerge: In your early years, you were invited to join something called the Junior Advisory Council. What was the role of that group? How were people chosen?

Clausen: I became a member of the Junior Advisory Council in 1955. Twelve young officers were picked who senior management believed had some potential and it would be worth investing in their education about the bank and banking. What was not said, but which I believed, was that it was a form of recognition. Being a member of the Junior Advisory Council was prestigious, and I was one of the youngest there. I was in my early thirties and I’d only been at the bank for about five years. And boy, what a recognition! It made me consider that I may be better than I think I am.

LaBerge: Did the Council advise senior management?

Clausen: We met with senior management and listened to them and exposed ourselves to personnel policies. Sometimes the twelve of us would have lunch with the president of the bank. We didn't call the president “CEO” in those days, but the president was the number one person in the organization. The chairman reported to the president and the chairman was always stationed in Southern California to give the bank balanced representation in the state.

The chairman of the General Finance Committee would come in and talk to us for an hour on loan issues and loan policy. That's where we heard from Frank Risso, whom I mentioned earlier. The Junior Advisory Council was given broad exposure.

LaBerge: How often did you meet?

Clausen: We'd get together periodically and we'd have dinner together. During the course of the year, there might be four trips to San Francisco. We’d see maybe six senior officers who would each spend an hour or so with us, and we’d spend time discussing problems among ourselves. You learn as much talking to your colleagues as you do from talking to say, the head of the General Finance Committee.

Junior Advisory Council -- Length of Service

LaBerge: And about how long were you on --

Clausen: A year.

LaBerge: A year’s stint for everybody?

Clausen: A year’s stint. It was rotated so that every six months, six would leave the group -- three from the south and three from the north – and six more would come in their place. They came from all over the bank -- from the Trust Department, from administration, from the branches – and there were operations officers and branch managers on the Council. So you really got an exposure during a twelve-months span because you got to know eighteen people from different parts of the bank. I think it was a very good experience.

[Reference: end tape 11, side A -- begin tape 11, side B]

LaBerge: Were women represented on the Junior Advisory Council?

Clausen: They were all men. Women came later, because we were slow in democratizing the bank and having women managers. Now most of our managers are women. In those early days, there were no females on the Junior Advisory Council. Come to think of it, no one ever raised the issue. In the fifties and sixties, the feeling of employees was, “Ours was never to question why, ours was to do or die.” Or said another way, “Ours was to do or die, but never question why.”

Clausen: The Junior Advisory Council was also used for reviewing employee suggestions and for recommending dollar awards for the good ones. The vice chairman of the group in the south was one of my good friends, Harold Madsen. I haven't thought of that name for a long time. A good solid friend. He was a wonderful branch manager and throughout his career he stayed out of administration. He always said he was smarter than the rest of us, and he had more fun.

LaBerge: I read someplace that you got an award. For what kind of suggestion?

Clausen: I got an award one year – of eighteen dollars! I don't remember what it was for. It might have had to do with eliminating reports. I could have pointed out that such and such a report is redundant, because we get the same information three or four times in other reports, so why do we have this report? Why don't we consolidate them? Even today there's too much paperwork in the Bank of America's bureaucracy. The Junior Advisory Council would get suggestions like that from employees. As an example it might be about simplifying or adding information that might be needed on a financial statement. So we looked at suggestions and learned about the bank. John Goy, who was the administrative assistant to Clark Beise, was the chairman of the Council here in the north. We would work with Matson, our vice chairman in the south. When we knew we were going to meet with say, the head of Personnel, the head of Loans, or the head of General Finance Committee, etc., we would feed Matson questions we wanted to ask and he would feed them up to John Goy. We had fun with that because we said those guys up north aren’t smart enough to respond on the spot. They need to be primed beforehand! We weren’t always serious.

Clausen: We met with Claire Giannini Hoffman, the daughter of our founder, A.P. Giannini. She was not an officer of the bank, but she was a director of the board and then an honorary director. Over the years, I've had my disagreements with Claire.

LaBerge: Those have been documented elsewhere. They're not a secret.

Clausen: She had strange precepts about the bank, and of course, no one compared favorably with her father. Claire would say, "My father would never have done this. You're becoming a Wall Street bank, and that's all bad. You're forgetting the little people, and some things just don't change: honesty, care for people, attention to people, sensitivity to people, those things don't change. And now we're terribly insensitive to people." After I became CEO, I asked one of our directors, Rube Mettler, the CEO of TRW, to look into the charge. Would he get a little group together and investigate how we treat our employees? I told Rube to report straight to the board because I didn't want to influence his views or change his mind. The board then reviewed the results of his findings. But Claire and I had our disagreements.

The Junior Advisory Council Ends

LaBerge: Is the JAC still in existence?

Clausen: We cut it off in the early eighties as an expense measure.

LaBerge: Oh, when you weren't here.

Clausen: I was with the World Bank. Management cut it off. When I came back and found that out, I regretted it, but I had more important things to address. My goal was to save the ship, and then tune up things like that later. Saving the ship became more than a full time job. But I talked to a guy just yesterday in Los Angeles who was a member of the Junior Advisory Council when I was the CEO, and he also complained that we no longer have it, but we should. I agreed with him.

Employees as Shareholders

LaBerge: You seem to have learned a lot about the bank even though you hadn't been there very long. Were all employees knowledgeable about how the bank was run?

Clausen: We were all shareholders in my early days with the bank so we knew a lot about it, especially what goes into declaring an increase, whether we have a dividend, or the timing of increases.

LaBerge: Were you a shareholder because all employees were, or because you personally bought shares?

Clausen: No, it was profit sharing. But I would also buy up shares because there were two incomes in my family in that period, and I didn't have any children. Peggy was working and I was working. Peggy was a schoolteacher at Roosevelt High. When we bought our house out in the valley, she went to teach at San Fernando High School.

LaBerge: What subject?

Clausen: Physical education. The first couple of years her income was more than mine. Here she works only nine months out of the year. She blows a whistle, throws out a ball and sits down. Fifty-five minutes later, she blows a whistle and catches the ball. She only does that nine months out of the year and makes more money than I do when I'm working my tail off. And here I have a graduate degree and all that stuff. So the bank didn't pay very much. Neither did the schools, but at least they paid schoolteachers.

At that time, all the salary increases at the bank came out of the office of the head of Personnel. One day along about 1954, I was hoping for perhaps a fifty-dollar raise. Then I got a letter from Frank Risso, the head of Personnel. It had been typed to say "Dear Mr. Clausen," but that was scratched out and inserted was "Dear Art." [laughter] It went on to say, "I am pleased to tell you that…" -- the Personnel committee or somebody -- "has given you a raise of fifteen dollars a month. Keep up the good work, Art. Yours sincerely, Frank Risso." A fifteen-dollar raise was kind of an insult in those days.

Then I realized, well, "A. W."… "Art." His staff screwed it up; he didn't know. He was busy, so he just scribbled his signature on the letter. And I only got the fifteen-dollar raise. For years after, I was looking for this Art Clausen, because he got my fifty-dollar raise, and I got his fifteen-dollar raise! It was a big mix-up. I am still looking to this day! [laughter]

LaBerge: There actually was an Art?

Clausen: I don't know. I never found him!

LaBerge: Or he just thought A. W. meant --

Clausen: He thought A. W. meant Art. And that was a lesson for me. After I got to the top and had to write letters, whenever I knew somebody by their first name, I resolved to call them by their *accurate* first name. If it's George James Jones and he goes by "Butch" and I call him that when I see him, I'm not going to write "Dear George." I'm going to write "Dear Butch." I

also worked to avoid sending letters with printed signatures. I wanted letters from Tom Clausen to be signed in real ink. If someone put them to the test, my signatures would smear. I wanted them to be real to the people who received them, so I've always been very careful.

The point of this is that there are no little people; they're all important. People value personal attention. Each employee needs to feel that he or she is known and appreciated. And it’s a leader’s responsibility to make people feel that way.

For years at Bank of America the president would write “congratulations” letters to all employees on the occasion of their fifth, tenth, fifteenth, and twentieth anniversaries with the bank. In those days, we had maybe 7,000 employees, as contrasted with 90-some thousand employees today. CEOs can no longer do that. There has to be a mechanism that allows you to still give that personal attention. So we do something special on their twenty-fifth anniversary – they get to join something called Founder’s Club and they are invited to an elegant Founder’s Club dinner. I only missed one Founder’s Club dinner in the twelve years or so before I went to the World Bank, because I believe that twenty-five years is a big chunk of one's life, and if you can't get the CEO of the bank to spend an evening with these people and be among them sincerely, that's a severe oversight. I feel that very strongly. For me, Founder’s Club was the way to help each long-term employee feel that he or she really is known and appreciated. That's the purpose of the Founders Club. Each one of those persons there is being appreciated and thanked sincerely for what they've contributed -- whether they’re messengers or vice presidents, senior officers or keypunch operators. This has to be egalitarian, because everyone has contributed, and that's a fact. They've got to feel that they are valued members of the team.

At the Founder’s Club dinners I would always give a little pitch for the bank and try to bring them in on something that was going on. Senior officers are privy to confidential information on earnings and you’re not supposed to disclose that to anyone. But with these people, I cheated on the system once in a while. I might say, “I don't want you to be surprised, but I kind of think that maybe the board is going to increase the dividend next month.” You're not supposed to do that. I didn't tell them what it was and I didn't guarantee it, but telling them that much made them feel more a part of the team and more valued.

I remember one person from Bakersfield who had been a graduate of Carthage College who also became a twenty-five year employee of the bank.

LaBerge: Did you look up her name or --

Clausen: No, I knew who she was. She was either one class in back of me at Carthage or one class in front of me. I never met her, but I recognized her name on the list and I had access to the files so I confirmed that she was a graduate of Carthage College working in one of the Bakersfield branches. I want to say her name was Velma. She would remember me because there were maybe 400 students at Carthage and perhaps only 350 during the war when they got sucked into the fight. So I was prepared, and I was able to greet her and make her feel known and appreciated.

I paid personal attention to that. Helen would help. She has to help a lot, because I will often ask, “Do I know this person?” She says, “Sure you do. You only had dinner with him yesterday,” Or something to that effect. But this personal attention is very important to others. And I believe what I said: There are no little people; they're all important.

LaBerge: When exactly did you reconnect with Francis Herwood? He was pretty pivotal in your early career.

Clausen: By the mid-1950s, Francis had left the International Office and was head of Loan Supervision. One of his projects was collecting monies for thirty-five or so motion pictures that had not made it at the box office. The bank had given Francis the assignment to get our money back out of these motion pictures whatever way he could. It was in the early days of television and Francis got the bright idea to show these movies on television, so he created the first series called “The Million Dollar Movie.” As a result, he did a lot to wipe out our losses.

I thought the work Francis was doing was fascinating. Then I got on the Junior Advisory Council, and knowing Francis Herwood and wanting to show one's importance with my fellow bankers, I suggested to my colleagues that it would be interesting for Mr. Herwood to come in to talk with us, to spend a couple of hours and tell us what he was doing.

Francis has always liked me and I've always liked Francis. The chemistry is right, even though he was way up there in management and I was way down here in operations. I was always friendly and candid with Francis, and he knew that corporate finance was what I really wanted to do -- to

either practice law or do something on the corporate side because it interested me very deeply. When I was in the branch at Lincoln Heights, Francis remembered me and kept track of me. And I guess out of that invitation to the Junior Advisory Council, Francis suggested to John Kerfoot, who had the Category Section of the Loan Supervision Department dealing with big wholesale accounts, that I would be a good guy to come in and work on the wholesale side. I owe Francis a lot for that.

Joins Loan Supervision Department – Category Section

So I accepted the invitation to join Loan Supervision. The department had two pieces: one dealt with loans made in branches and approved over branch limits – these loans came into a section in Loan Supervision headed by Bill Huck. The other half of the department was called the Category Section (it was later renamed Corporate Finance) and that's where I went to work.

The Category Section was run by John Kerfoot and it handled the large company and corporate financings. Francis sat in the middle and Kerfoot on the left. There were eight or ten people in Category Section, including Chauncey Medberry, whom I later chose to become chairman of Bank of America while I was President and CEO. Lou Lundborg had been chairman for the first year and a half or so of my administration and when he retired, I picked Medberry.

The CEO has a lot of influence on people and succession in the company. That's called power. Power can do a lot of damage; power can also do wonderful things. The finest committee that God ever devised is a committee of one if that person has got his or her head screwed on right and does the right things. But too many times, we have seen that power absorbs somebody and takes over, and then they become committed to the wrong things. Greed and power can get in the way of judgment. That's why it's really best to approach power cautiously, to have checks and balances.

[Reference: end tape 9, side A -- begin tape 9, side B]

LaBerge: So when you were in the Category Section, did you report to Francis Herwood?

Clausen: No, Fran Herwood was on top of Loan Supervision and he managed John Kerfoot and Bill Huck who was in charge of supervising the loans made in the branches. I reported to Kerfoot, but there were sections. There was the section dealing with large corporate assets. We had a National Division that dealt with the liabilities, the deposits. It was very confusing in those days, and I straightened it out later when I became CEO.

The Category Section analyzed loan applications and recommended that loans be made – to companies like General Motors, General Electric, IBM, Singer (that was a great company then, but it's no longer around), Boeing, et cetera. But the people in the Category Section did not call on those customers. The National Division people would go and make those calls. We dubbed them "the knife-and-fork people" because they could represent the bank very well. But they had no lending authority – in those days we called it "lending limits."

LaBerge: I know you don't like those words.

Clausen: That's right. It's connotes something negative. I always want to strike the positive side of things. I didn't like the notion that you might go home and tell your wife and your kids, "I've got a lending limit of $25,000." They might ask, "Well, how come it's so low, and why is there a limit?" That doesn't make you feel empowered and part of the team. But if you could say, "I have a credit authority of $25,000," that's positive. I tried to change that when I was advancing in the bank, and when I became the CEO I made that a clear policy. I feel very strongly about that. This isn't about fostering arrogance. I believe that people will do better for the corporation if they feel better about themselves and hold themselves in higher esteem. I think one of the duties of managers in a corporation is to make employees feel better about themselves, and to help them perceive themselves as quality people and to be perceived that way by others. Everyone wins when employees don't feel constrained in a box, but have an entrepreneurial feeling that they have the power to do good things to help the company succeed. They have authority. Not limits.

First Assignment in the Category Section

I worked first in the construction area where we did all the financing of large contractors. These weren't building contractors -- they were the infrastructure contractors who laid down sewer pipes and highways. We even had a couple of small projects in utilities with companies like Fluors; Bechtel might have been building small chemical plants or power plants. It was kind of complicated.

I was there for a year. I'm a night person, and so is Francis Herwood. So he would invite me to dinner -- just the two of us -- and I got to know Francis very well and liked him. And even though I was married and had a wife to go home to, I would look forward to these dinners with Francis.

Clausen: Then Francis recommended that I be appointed an assistant vice president. That was big stuff in those days. There weren't very many assistant vice presidents and not many vice presidents. The ladder then was: pro. assistant cashier, assistant cashier, assistant vice president, vice president. Then we had less than a handful of senior vice presidents, then executive vice presidents, and then the top two jobs.

LaBerge: I'm glad you explained that, because I didn't know what the difference was, especially between a senior vice president and an executive vice president. So that was the ladder.

Clausen: I was way down, but that's the ladder. It's a little different ladder now, because we've got so many positions. We now have, going up the ladder, vice presidents, senior vice presidents, executive vice presidents, group executive vice presidents, vice chairmen (who are not vice chairmen of the board), vice chairmen of the board -- that's another level. At the top are president, chairman and CEO. When Rudy was president, he had a chairman and we didn’t yet use the title CEO. It was the same for me the first time around. But in recent years, all three of those job titles have been held by one person. I had all three, Dick Rosenberg had all three, and by the end of the month David Coulter will have all three.

John Kerfoot was terribly bright, but he left the Category Section, and then Walter Sharp was promoted to take his position. Walter Sharp supervised lending for airplane manufacturing, avionics, and electronics, which didn't have a section then. For a time, I worked for a guy by the name of John Shanley whom I came to like very much. I was his briefcase-carrier. I went with him on his calls and learned the trade and all of that, and I respected John. He was very competent and an excellent banker and lending officer.

Dinner with the Herwoods to Meet Peggy

LaBerge: One of the things you told me about, though not on tape, was when you were starting your newer job and your wife had to pass a test at a dinner party.

Clausen: Pass a test?

LaBerge: Well, it was more like she had to be inspected.

Clausen: Oh, right. Francis wanted to meet Peggy. I usually say that Peggy had to pass the saliva test -- was she acceptable in the organization? Francis himself was married to a former, I want to say note department teller. Her name is Nell and she's a lovely lady, wonderful. Both Francis and Nell are still alive and well into their eighties. But in those days, Francis was a senior officer and so when they got married, Nell quit the bank. I think it was kind of a rule -- if you're going to be a senior officer, your wife certainly can't be working in the same organization. Clearly not in the same branch or the same department. Today, we look the other way, because two-income families are all over the place.

So Francis asked me about my family background, my mother and father and Norway and all that stuff, and also about Peggy and her background and all that. He said he wanted to meet her. Well, back in the early fifties the Christmas party for a branch or department was quite a thing. I think they're less of a thing today, although I still go to get-togethers at Christmastime.

It's not anything that I look forward to, because I find people are a little uncomfortable talking to someone known to be the former CEO, the head of the World Bank, and with the reputation that I saved the place. That's all just erroneous, by the way. Yes, I did a little work at the World Bank. But I've always looked on myself as egalitarian. Yet I can understand the discomfort; I'm a little uncomfortable too meeting strange people. But Peggy and I still go to at least one gathering every year at Christmastime.

Francis had met Peggy at one of those, but he hadn't really had a chance to visit with her and talk with her. So he invited us to go out to dinner with him and his wife, Nell. We had a wonderful time. Francis is a very friendly person, even though he is Irish!

Somebody told me afterwards, "I see that you're going to get promoted." I said, "What do you mean?" He said, "Well, Mr. Herwood doesn't promote people unless he knows everything about them, and he wanted to check out Peggy." So that's why I say Peggy had to pass the saliva test. But Francis never told me that.

LaBerge: No, but you just kind of know that. And I think it says something about the times, don't you?

Clausen: Yes.

Noticing Employees with Potential

LaBerge: I wonder if anyone does that any more. Did you ever experience that again, or did you ever feel you needed to do that when you were going to promote somebody?

Clausen: Well, I do like to know the people I'm promoting. I was on the receiving end of things like this when I was climbing up the ladder. Some of it was good, some of it was not so good or pleasing. When I became a manager and senior officer, I tried to eliminate the latter and follow the former, when I was comfortable with it.

I want to say something here about people with potential and a few things to remember if they want to advance. I can give you chapter and verse here at Bank of America and at the World Bank. I've seen many people with great potential who could advance much further if they just applied themselves a bit more, if they just worked harder. I've often seen somebody go home at five minutes to five every night. That person is a clock-watcher. But if they had just stuck around awhile, we could talk and visit. I might sermonize and satisfy my frustrations, but we'd get to know and appreciate each other better. But they don't. Early on, I used to hold it against them. I'd say to myself that they're dogging it. And you don't want a senior officer to have that view of you.

Another thing to remember. It's important to show each other what we want to show, or control what we don't want to show. There are times when I've felt I had to be cross or chew out somebody, and I would be very careful about how I did that. There are other times when I've wanted to express a wave of excitement and happiness and satisfaction of a job well done, and I've let that show. My advice to others is, "When it's positive, don't hold yourself back. Show it. And let others do that too." I practice that. I don't deny that I am and have been a bit politic here and there, because I've always wanted to achieve an objective. But a good general rule to remember is to "celebrate in public, but criticize in private."

There's another point worth mentioning to people with potential to advance. You may know the phrase: "It's not important to win every battle if you're going to end up losing the war." The war is what's important. And maybe, if you lost some strategic skirmishes along the way, it would help you win the war. You and I both have known people -- and for me this includes some very senior bank officers – who had to win every argument, every point, every time.

[Reference: end tape 12, side A -- begin tape 12, side B]

Being Willing to Say "I Don't Know"

LaBerge: You told me about someone at the World Bank – you were trying to help that person address this tendency.

Clausen: Yes, I wanted to help him really climb the ladder. I told him, "It would help you if you lost a few strategic skirmishes. If you really want to win the war, be a loser now and then. Once in a while why don't you say something like, 'I don't know…' or 'I made a mistake.'" Small things, but important. I've been willing to say, "I don't know, but I'll try to get the answer." Then in two, three or four days or next week, I'll call him or her and have the answer. I've never been ashamed or bashful about saying, "I don't know." There's a whole universe of things to know and one person can't know them all. So I've never felt uncomfortable about saying, "I don't know."

I should know my name. That's important. But I don't remember my telephone number; I've got to look it up! I guess I just don't think that's important. I don't know my passport number, even though I use my passport all the time. I'm going to use it this weekend and the following week when I go back to Japan after being in the States for two and a half weeks. I've got a lot of travel between now and the end of June. I don't look with great pleasure on that; I get a little tired thinking about travel. But in spite of all that, I still don't know my passport number. And I'm okay with saying, "I don't know."

LaBerge: In the earlier years of the bank, job progression seems linked to going through jobs step by step. Is that true?

Clausen: Yes. In those days, you had to go through steps. Today no one would think of starting where I started. But back then you couldn't come in as a vice president. That wasn't possible until fairly recently.

For a long time the number of years that you had worked for the bank was an important factor. It controlled a lot. For example, it determined how many weeks of vacation you got. When you started, you got two weeks' vacation that year. It didn't matter what position you were hired for – you could be an officer or somebody sweeping the floors – you got two weeks' vacation until you'd been here so many years and then you got three weeks; and when you reached the next level of years, you got four weeks.

That was the progression. Ours was to do or die but never question why. Today, that doesn't go. You have to structure compensation plans to match the competition and to do that you have to break the old rules.

But in those days, you had to go through certain steps. You had to be a teller for a couple of years. Then you had to work in the note department. Francis was one of those in the early years who had to go through all those stages before becoming a senior officer. Yet, in his heart he knew it was wrong. But that was the system.

Tom's Mentors at the Bank

LaBerge: He sounds like he was one of your mentors.

Clausen: He was one of them. I was very lucky. I had good mentors.

LaBerge: Who were some of your others?

Clausen: Well, the occupier of this office, Clark Beise was one. Keath Carver, Nolan Browning and Walter Sharp were others. Keath Carver was the top credit man. I think I've mentioned his name before.

LaBerge: You have mentioned his name.

Clausen: When I hired in, Keath was the top credit man in Southern California if not the whole bank. He was a great person, and I got introduced to him early in my career. He had an early heart attack – I think it was in 1949. When you get a heart attack, that's a signal and you've got to listen to it. Keath lived long after he retired – into his seventies, I think.

I'd have to say an early mentor was Robert Van Buskirk. I told you how he brought me into the bank. Later he introduced me to Keath Carver.

Clark Beise became a mentor and I still recall the first time I met him. He became president in 1954 after Carl Wente had acted as a kind of interim president for a year and a half when L. M. Giannini had died unexpectedly. After Clark became president, he made a tour all around the state to meet employees and the bank paid for a dinner with him in Los Angeles, to which I came. Hal McMillan, who was in Personnel, attended that dinner. Hal knew me and he was also a good friend of George Banse. George and Loni Banse, by the way, were our closest friends. The Banses and the Clausens had some interesting coincidences in our lives. George was born on February 17, as was I. George and Loni were married on

February 11, as were Peggy and I. George and Loni were Presbyterians, as were we. George was a Presbyterian elder, as was I, and I got assigned to George's branch. And it turned out we were neighbors in the town of San Fernando in Southern California. To top it off, we had a marvelous relationship. That's a forever kind of friendship and Loni Banse is still one of our closest friends.

When this big dinner was held for Clark Beise at a restaurant on Ventura Boulevard in the San Fernando Valley, perhaps 250 employees were there. A receiving line was set up where people got to meet and shake hands with Clark Beise. When Clark came through the line, Hal McMillan looked up and said to him, "This is Tom, Tom Clausen," and he said it so familiarly that I was convinced that Clark had already been coached about me or he'd been told my name before. That made me feel very good.

Walter Sharp became a mentor for me and he extolled my virtues. Eventually he left the bank to become the sidekick of Kirk Kerkorian, the famous investor and motion picture executive. So those were mentors.

Peggy's Help *re* Being Shy; Peggy's Condition

LeBerge: You said earlier that you'd been quite shy when you were in high school. Yet by this time, you seem to be getting along well with some powerful people. How did you overcome that shyness?

Clausen: I was very lucky. I have always been very shy. I still am today. But I find that I can turn it on and not be shy when the situation calls for it. But basically I am more comfortable being in the background. I won't say I'm uncomfortable being in the forefront -- I can tolerate being a leader -- but I would really prefer to be a follower. As I told you, I had a terrible inferiority complex and I still do. Peggy has helped me on that. Now Peggy is ill.

LaBerge: You told me that.

Clausen: Yes, and it's very sad. Her condition is very, very hard on her. She still goes out. But before she had the failing memory, she would be very comforting to have around and do a lot of things I would be timid about. Where I would hold back, she would say, "Why don't you go ask so-and-so?"

I can remember Jesse Tapp who was the chairman of the board at Bank of America for almost ten years, beginning in 1955. His wife, Ida, was

vivacious, gregarious, and filled with a lot of life. Yet Jesse was very shy and quiet, an intellectual type. He had been head of the Federal Crop Insurance Corporation under Franklin Roosevelt.

LaBerge: Oh, you know, I knew the name was familiar. I'll be darned.

Clausen: For the record, during my years at the bank, the chairmen of the board were: Al Gock, then Fred Ferrogiaro, then Jesse Tapp, then Lou Lundborg, then Chauncey Medberry, then Lee Prussia. In 1986, Sam Armacost was the CEO but shifted to the chairman's title while Prussia moved to chairman of the executive committee of the board. Then I came back as chairman and CEO, and then Dick Rosenberg, who is still the chairman. At the end of this month Dave Coulter will wear all three hats – president, chairman and CEO.

But back on the subject of shyness, I can remember a bank reception when Ida Tapp, who was a lovely woman, pulled Peggy and me aside. She said, "Go over and talk to Jesse. He's uncomfortable. He needs some relief." So Peggy and I went over and talked to Jesse Tapp. But Ida took care of him. And Peggy…

LaBerge: Took care of you.

Clausen: In a similar vein, Helen Higgins takes care of me. So I have three mothers. My birth mother, whom we saw just ten days ago -- she's ninety-eight. My wife is my mother. But so is Helen. Helen is protective and takes care of me, and she's assertive when I am too bashful to intervene.

Asked to Set Up an Electronics Group

LaBerge: Still, you must have impressed all these people because they asked you to take on the job of lending to the electronics industry.

Clausen: Up to the time I joined the Category Section, Bank of America had done nothing in what I call the high-tech area -- the electronics sector. We only had perhaps three accounts. We had a 100% lock on the television set industry with Packard Bell, Hoffman, and Pacific Mercury, who made television sets sold under the Sears brand name.

LaBerge: What was the one after Packard Bell?

Clausen: Hoffman Television. Hoffman was a California pioneer in television design. Back in the 1940s, Hoffman was one of the first to manufacturer

color televisions. Today, Packard Bell/NEC is one of the largest manufacturers of computers. Those were the three high-tech clients we had. We missed out on Litton Industries, which became one of the largest conglomerates. Wells Fargo was getting all the high-tech companies. The electronics industry, as we called it then, was really growing rapidly, but we had no competence whatsoever. So I was tapped on the shoulder by Fran Herwood to tackle this industry.

LaBerge: I know that years later Lloyd Sugaski became head of loans for the bank. Was he a part of this?

Clausen: Lloyd had been manager at the Costa Mesa branch and he was my first assistant in the Category Section. I had not enough to do, so I was given an assistant to do my nothingness! The job was to build a clientele for Bank of America in the electronics industry and they thought Lloyd could help. He was a college graduate and had been on the C program too. He had spent a good chunk of his military service time in Alaska and I think it had something to do with communications. There was no fighting up in Alaska, and he read a lot. He was a prodigious reader. And he was recognized as a good manager of Costa Mesa.

I was also given the authority to lose money -- $500,000. They figured that we were going to make some mistakes as we were learning the business.

LaBerge: So your credit authority was $500,000?

Clausen: No, you might call it my “loss authority.” They said, “Here's $500,000. You can lose this much. We expect you to lose it while you help us learn this business. But don’t lose more than $500,000.”

I still remember my first loss. It was about $60,000. The customer’s name was Feeland, Cliff Feeland. Why would I remember that? Well, it was my first loss. So I used up some of that $500,000. My second loss was $560,000. I felt so sick. It was a stupid, stupid loss.

LaBerge: Do you remember any of the details?

Clausen: Oh, sure I do.

LaBerge: Well, why don't you tell me?

Clausen: One of my colleagues -- let's see, his son is still working for the bank. It's not a very nice story.

LaBerge: Now, this isn't Tom Deane. Or is it? Oh, it is Tom Deane.

Clausen: How do you know about Tom Deane?

LaBerge: I read about it and you told me about it in one of our pre-sessions.

Clausen: Okay. The account name was Transvaal Engineering. This must have happened before the inventory lien law, because I think that came into effect in the late fifties. That law permitted a lender to take a lien on accounts receivable on a macro basis and inventory, including work in process. Lloyd and I had devised a system of lending on a formula basis, since we had a lien on all the accounts receivable. This way the Bank of America had first rights on the collection of those receivables and inventory– in essence, we owned them and could claim it. This of course was based on the assumption that the officers of the company had integrity and their books were not fraudulent and fictitious. So in essence, we were secured. The same way on work-in-process which is out in the plant -- you can't tie a ribbon around it and maybe it's not worth anything unless you complete the product or the project, whatever is in process. Using a revolving line of credit, we would lend 80 percent on accounts receivable, perhaps 40 to 60 percent on inventory, but only a certain percentage of that loan could be on work in process, as contrasted with finished goods. And that's what we were doing for Transvaal Engineering.

I think we brought the account from Union Bank. We got a lot of business from Union Bank. We got some business from Crocker Bank and we got some business from Security Pacific. Lloyd and I were pretty good. One night we were out chumming the waters for new business. We were the featured program for the Electronic Manufacturers Association of Los Angeles County or some similar title. They wanted to put on a program about financing, so we agreed to talk about accounts receivable and V loans--

LaBerge: V-loans being --?

Clausen: That’s shorthand for Victory loans, which had been started during World War II. It was structured so that the U.S. government would provide a guarantee of a V-loan when the lender made advances to the borrowing company based upon the accounts receivable they had billed the government. There were many companies producing goods and services

for the government during and after the war, and that's where the V, the victory part comes in. When the only customer or the principal customer is the government, you do a V-loan. We also devised a non-V-loan – one that didn't have the government guarantee – but used a similar kind of approach on a formula basis. The inventory lien law helped, but there were some V-loans, where you really needed government production.

By the way, that's where we got Bill Lear from the Michigan National Bank. Bill was then building the Learjets, and his credit needs had grown beyond Michigan National Bank's lending limit for one customer. The Federal Reserve and the Comptroller of the Currency had put a limit on banks vis-a-vis the percentage of their capital that they could lend to any one customer. And so in my section, the Technical Section, I was asked by Francis Herwood and Walter Sharp to find a way to finance Bill Lear on his development of the Learjet. Still, we were very polite in those days -- we never stole accounts, we earned them -- so we worked to keep Michigan National Bank in the forefront. I devised a V-loan for Lear, which Michigan National Bank hadn't thought of, and probably didn't know how to structure. But Bank of America did, as its staff had made them during the war. And that's how we got the Lear account.

Now I tried to do a V-loan on Transvaal. The owner of Transvaal was named Berge Hagopian, and Transvaal was moving very fast. They'd gotten a contract to build a kind of a tank. It was more metal pounding than it was electronics or complicated devices, and they needed welding and stuff like that. Tom Deane was on vacation when they came. I had three or four people in my group. Lloyd Sugaski had just gone over to run another group, because he was a very good credit analyst and negotiator. So he now had his own section, and I still had mine, which was growing very nicely.

Then I got a call about Transvaal from Julius Megary, who was a Vice President and branch manager. As we talked it became clear that we were in trouble with the loan. In our section, each person had maybe twenty-five accounts, and every person was supposed to know all the accounts in the section. So we had all the files near our desks. I went and got the account folder and it kind of jumped out on the formula: X percentage of receivables, X percentage of work in process, and then it's got to turn. The receivables ought to be going down. There ought to be some relief. But I could see that, for whatever reason, the receivables were just building up and not being paid or collected.

I knew we were in difficulty right away. I took the file and went out to the branch to talk to the manager. Our managers were strong, capable people. They didn't know the techniques, as did the people in the Category Section who were more expert, although we were generally a lot younger, but they were very competent.

Let me say a word about that. I didn't believe that all college graduates knew more than those who didn't have a college degree. That snobbishness came later in the bank, in the early eighties, which I think this oral history ought to cover. The snobbishness was that "if you're not an MBA, you're not worth a tinker's damn." That kind of feeling crept through the company under Sam Armacost's regime. And it upset a lot of people. One of the greatest financial people the bank has ever had is sitting down here in the Retired Executives Office -- a high school graduate by the name of Clarence Baumhefner. Baumhefner is no slouch. A college degree is only evidence that you've gone through certain hoops and done it successfully; but you can be a very smart person without the benefit of a college degree. The tough thing is to do what Baumhefner did without it, become Vice Chairman and Chief Financial Officer.

LaBerge: That's right.

Clausen: Gerstenberg's predecessor as CEO of General Motors did not have a college degree. He was a high school graduate. But he was a pretty good CEO too.

Anyway, when I realized what was going on at Transvaal, I was sick. I just died. This was going to turn into a big loss. I went home and I didn't eat or sleep. I came back the next day and decided that, well, it happened on my watch, so I'll send in my letter of resignation. I decided to give it to Chauncey Medberry, because he was next in the ladder after Sharp who was after Kerfoot.

LaBerge: Was handing in your resignation the kind of thing you would go home and talk to your wife about, or did you just keep your own council?

Clausen: I don't recall specifically. I had overtly made it kind of a policy, a rule of thumb based upon an earlier experience, that I was not going to burden Peggy with discreet information from within the bank. It was not that I didn't trust Peggy, but she might succumb to temptations and say something she shouldn't. I mentioned the house we had bought on Lazard Street in San Fernando. Two doors up from our house on the same side of

the street, was a more senior officer of the bank and his wife, Elinor. We're still very close friends and we still see them.

But I would come home at night, and Peggy would tell me inside stuff about the bank. I would ask, "Who told you that?" "Well, Elinor told me." And Elinor was telling Peggy stuff that Elinor shouldn't have. So overtly, I said, "Peggy, I'm going to take that burden off your shoulder, because you never know what might happen with some inside information I could give you." So I might not have told Peggy.

[Reference point: end tape 9, side B -- begin tape 10, side A]

Two Boys

LaBerge: So now you think you're unemployed, but you have a house and family to care for. You had two sons at this time, didn't you?

Clausen: Yes. Our son Eric came in February of 1956 and our son Mark was born by Caesarian section in December. So we then had two kids.

LaBerge: Two kids in the same year?

Clausen: Yes. The first one, Eric, was adopted. February 25 was his birth date. Three days later, we had him home. Mark came December 7.

LaBerge: So it's almost like having twins.

Clausen: Yes, it's almost like having twins. Nineteen fifty-six was a vintage year!

Nevertheless, at the moment, I was starting to be concerned about money. We had a little bank account and we had borrowed on the house, so I wasn't terribly worried. But Peggy was not teaching school then, so we only had one income, which I had just resigned.

I'm a night person, so as the day goes on, I get stronger. I am nothing in the morning. I have a reputation – "If you want to talk to Clausen, don't get to him before ten o'clock in the morning if you can possibly hold off. Better yet, go see him at six or seven o'clock at night, because then he's mellow. Or at least he's less brittle as the day goes on." But that night I was especially thoughtful.

And then the phone started to ring. One of the calls was from Francis Herwood, whom Medberry had told. Another call was from Keath Carver. And one call was from Jess Tapp, the chairman of the board. My goodness, boy, had I screwed up, and he wanted to see me the next day.

So I went in to the office, intending to find out if they wanted me to leave. Keath Carver -- Mr. Carver in those days, not Keath –asked me if I would join him for lunch. So we went to the club up the street and got a corner table. Keath started to tell me something about his professional experience.

At this time, Keath was clearly the top credit officer and loan guru in Southern California, if not the whole state, because he was brilliant. Not everybody up north was brilliant. There was a bit of north-south jealousy and competition – but Keath could pound them in the sand hands down. But he told me that before he ever reached his present position, something went wrong. He explained to me that when he was at Beverly Hills Main Office early in his career, something happened. A loan had gone bad and Keath was accused of being responsible, although he didn't feel it was his fault. He said to me, “You know how I sorted this out? I asked myself, ‘Did I do everything I could have and should have?’ ‘Did I give it my best?’ And after answering those questions positively, I figured that there was nothing I could have done to avoid the loss. And so I stopped worrying about it. Tom, that's what you ought to think about this.”

When Keath told me about his experience, he made me feel comforted. But I said, “Well, I could have done better. I could have watched this. I could have spent another hour a day looking at all the stuff. Just talking to Julius Megary on the phone, the problem jumped out at me.”

I am very quick at figures. Not figures that don’t tell stories -- I can't remember telephone numbers, my passport number (although I use it constantly) and I can just barely remember my phone number. These numbers don't tell stories. But I *can* remember dollar amounts and sequences and working capital and all of that, because those figures *do* tell stories. Years and years later, I was hired back to Bank of America on a Sunday and I came in on Monday, a holiday. They had fashioned a little office for me, because Sam Armacost was still occupying the CEO's office, having been asked to resign only the day before. I started on a spreadsheet drawing numbers from past annual reports -- macro figures, not micro figures. It only took me until halfway through the second night -- this was on a Tuesday -- that it just jumped out. I knew exactly what was wrong, and I knew precisely what had to be done to fix it. It was all just so

obvious. Those things just flash out at me. And as far as the loan to Transvaal Engineering, I thought I could have done better at reading the stories in the figures.

I told Keath, “When I ask myself, ‘Did I do my best?’ I answer ‘No.’ ‘Could I have avoided it?’ ‘Yes.’” He said, “I don't mean that. You're not goofing off; you're not taking two afternoons off and playing golf. You're down here working. You may be a little bit late getting in..!” Keath knew I had a reputation for always being late in the morning. One morning at the Toluca Lake branch, I arrived two minutes before the starting time. Just as I got there, the whole branch applauded. [laughter] I said, “That's the last time I'm going to show up on time!” I mentioned earlier that I also have a reputation for not being civil in the morning. I'm a night person. Peggy's a morning person. One of our sons is a morning person, and the other son is a night person and he stays up with me.

When I saw Jess Tapp, he consoled me. I told him, “I am really affected by this, because it happened on my watch. I should have caught it. I could have caught it.” But Jess simply said not to worry.

LaBerge: Okay, after your lunch with Keath Carver and your meeting with Jess Tapp, what happened?

Clausen: I was comforted, and I came back to work at the bank.

LaBerge: You’ve mentioned to me before that Tom Deane’s father advised you as well. Did you have a relationship with him?

Clausen: Well, that was when I first came in to the Category Section. Francis introduced me. The Deane family is prominent in Bank of America’s history. There was the elder Tom Deane, known as T.A. Deane. There was his son, also named Tom, but known as T.C. Deane. And there was his grandson, James C. Deane. All three have been at least vice president and manager of Los Angeles Main Office, which is the largest branch in Bank of America. The grandfather, T.A., was a senior vice president and he asked me out for lunch when I first came. He told me, “Someone's got their eye on you and the betting is that you're going to be a manager someday. Let me give you a little lesson on that. Sooner or later in the life of every manager comes a time when they've got to make choices between a rock and a hard place. The time will come when you've got to make a choice of either being a son of a bitch or a goddamn fool. And some of us think that you're too nice a guy to be a son of a bitch.” He said, “There’s a lesson there. Think about that.”

I did think about it, and for a very long time. I've used this story dozens of times in my own career counseling others and with friends and younger officers, both at the World Bank and here at Bank of America. I think there is a very strong message there.

Some months later I called him up and said, “Can I return the favor? May I take you to lunch?” He said, “Sure.” When we got together, I told him, “You don't have to be ‘a son of a bitch.’ Don’t get me wrong. I never want to be ‘a goddamn fool,’ either. I do want to do what's right, but I believe you can do the tough part without being a son of a bitch.”

My best example of that came years later when I was brought back to Bank of America and had to downsize -- I hate that word -- reducing staff between, let's say, December 31, 1986, and December 31, 1988 -- that's twenty-four months -- by close to 15,000 people on a full-time employment basis, without being “a son of a bitch.”

Germaine, I don't swear, nor do I like people to swear, and it’s worse in writing. Perhaps you can figure out a euphemism for this. You've got to make me look better than I am, although that shouldn't be hard to do, because I'm really not all that good!

In any case, the proof of the point of not being “a son of a bitch” is that we only had two lawsuits. So you can treat problems sensibly, but with great sensitivity.

LaBerge: How do you do that?

Clausen: Well, by trusting employees, by trusting people. Employees are smarter -- I strongly believe this in the marrow of my bones -- our employees are smarter than we give them credit for. In the Bank of America they were going through hell -- really traumatic times and events – but when we leveled with them and asked for their help, they rallied round.

“You Don’t Have to Chop People Down”

LaBerge: You were talking with Tom Deane's father, and saying that you could be tough, but you could do it nicely.

Clausen: Yes. I decided that I could be tough, but first I would be sensible about it, and then I would do it sensitively. I came to the conclusion that you don't have to get out the meat axe and chop people down.

LaBerge: How did you know way back in the fifties that you could do that?

Clausen: Well, because of several experiences I'd had. Once in my training program I was in the Hollywood Highland branch in Southern California, and I was given the task of balancing the savings bond account because it hadn't been balanced for a while. The branch used to get a fifteen-cent fee from the government for typing in the name of the owner and handing over the bond. Over the course of a year, those small amounts can add up to a couple hundred bucks or so, and you might go three or four years before anybody audits the account. I discovered it was out of whack and somebody had grabbed seventy-five bucks. Not a large amount, but you're either honest or you're not, and taking money like that is an offense that gets you fired.

Then it was discovered who it was, and the operations officer of the branch, Frank so-and-so -- I still see his face now -- said, "Tom, you've just got to fire this fellow." I said, "I've never fired anybody. I don't know how. In fact, I've never *hired* anybody." Great. The C program is supposed to give you some experience. Be my guest. It took me an hour to fire him. I wanted to be easy and not harsh, and I think I accomplished that.

Another instance had to do with one of the people reporting to me in the high tech group. He became an "insider" when one of our customers was about to issue an IPO, an initial public offering. An insider like that is privy to every piece of confidential information about the company and even knows its profit projections for the next two, three or four years. So he is deemed to have an unfair advantage over other investors and therefore he isn't allowed to buy stock in the company before the public can buy it. In this officer's case, he didn't even have the sense to have his mother buy the shares. He simply took some shares under the table from the president of the small company.

LaBerge: This happened?

Clausen: Yes. So I called him in. I said, "That's cheating. That's one off from embezzlement. I realize that it's not a big amount" -- it was only twelve hundred dollars' worth, as I recall – "but it's impossible to be just a little pregnant." So I had to let him go. But I didn't have to do it in a way that I acted as an SOB.

I've never had the opportunity personally to make big money by being an insider. I want to get zillions out of here if I do! But until I can, I'm going to be honest.

So to answer your question, you learn by doing. You learn by watching. You learn by thinking. You learn by reading. You learn by having courses.

Executive Training Class

LaBerge: Well, talking about having courses, you took a training course in executive speaking and leadership development early in the 1950s. Do you remember that?

Clausen: Yes, Mullin.

LaBerge: Mullin, C. C. Mullin.

Clausen: How about that? See, I'm not as dumb as you think I am.

LaBerge: [laughs] I don't think you are!

Clausen: C. C. Mullin, yes.

LaBerge: What was that like? And why were you chosen to do it?

Clausen: I don't know. Tom Deane told me something like, “I think you've got some potential. And for people like you, we like to give personalized, customized training.” I strongly believe in that today. I am critical of the bank now because I don't see enough of that. I honestly believe that I succeeded in the bank because I got a lot of special attention. Maybe I needed special attention. I'm an introvert, and that really ought to be recorded. I am unsure, but smart enough never to let them see me sweat. I get torn up a little bit every time I have to give a speech. Yet I give speeches. Not as many now, nor as well as I used to, but I've given hundreds of speeches in the past, which I tolerate and now I'm immune to. Nevertheless, I still don't like to give them. But personalized training and attention helped me develop in my career. Looking back, I think it's great that the bank would spend money on its young officers. We were growing very rapidly then and it benefited everyone in the company to help young officers become more skilled -- not only in the “hows and whys” of the business, but also in some of the personal skills like speechmaking.

LaBerge: Well, it sounds like you were developing well and senior management was supporting you.

Teledyne

Clausen: Overall that was true, but not in every case. Early on, the General Finance Committee refused to confirm one of my loans. This was along about the late fifties, maybe 1959 or 1960. I had been sent to purchase convertible securities on behalf of Bank of America's small business investment company -- Small Business Enterprises, Inc. [SBE, Inc.] I had been authorized to buy $250,000 worth of convertible securities of a company called Teledyne at twenty-two dollars and fifty cents a share. Henry Singleton -- who is still alive but no longer runs Teledyne -- and George Kozmetsky were the number one and number two people at Teledyne. Kozmetsky later became the dean of the business school at the University of Texas at Austin. He's retired now. I couldn't buy the shares at twenty-two fifty, but I could at, I want to say, twenty-seven dollars or twenty-seven fifty. I believed that was still a good price and I settled on it, saying, "Okay, it's a deal." And then I brought it back to the bank for confirmation of my action. I was not confirmed. But the rule in the bank is that if an officer makes a commitment, the commitment stands. If the bank didn't like the commitment, the individual making it might be sanctioned. You might be shipped to Calcutta. Well, that's a little extreme. But you may not get a raise. Or you may only get a smaller one. Or you might be sanctioned in some other way that was available in those days. I was not confirmed. But it turned out that the bank made two or three million dollars on that investment.

LaBerge: It makes the story even better!

Clausen: I freely admit that I did not follow my instructions. I did not have the authority. But I nevertheless committed the bank, because in my judgment it was the right decision to make.

LaBerge: But clearly senior management valued your judgment and ability to make decisions because they decided to move you from Los Angeles to San Francisco to head Corporate Finance. Tell me about that.

IV. Ascending the Corporate Ranks at Bank of America, 1956-1970

Tapped to Head Corporate Finance in the North

Clausen: The Category Section in Los Angeles was really first-rate. As I said, it was run by Kerfoot, followed by Sharp, then Medberry. Under Medberry, I rode up into a section head in the electronic section in high-tech. We had some strong people and we did a lot of business. Our counterpart organization in San Francisco was not doing as well. Keath Carver knew I was pretty good. So I got tapped on the shoulder to come up here and make Northern California like Southern California – to build the team, get the esprit de corps, get the business, and get the excellence that was coming out of the group of young officers in the south. I trained a lot of people, and I do admit I'm tough, partly because of my experience with people like Hagopian.

Just yesterday one of our senior officers said, "You know, our business is a business of details. You can never forget the details." And he even said an old cliché that I use, "Two and two must always equal four. Don't try to get five out of it, or three and a half. Never more, never less. It's four every time." I taught people that if you focus on the details and you keep your discipline, you may still have some problems, but things will not go seriously wrong. I believe that very strongly. And our team was succeeding.

So I was asked to move from Los Angeles to San Francisco to become the Chauncey Medberry of the north to head the Corporate Finance Department, working under Rudy Peterson. Rudy had come back to Bank of America as vice chairman of the board after a stint as president of the Bank of Hawaii. Everybody knew that Rudy was brought back to succeed Clark Beise as president, since Clark was going to retire in 1963 at the end of October, the month of his birthday. At that time, I didn't know Rudy very well. I had met him and he'd also made a tour, but not as grand a tour as Clark Beise had made when he became CEO, with dinners and speeches and so on. As I recall, Rudy did very little of that.

But I remember one day he called, and he said "Peterson" very fast. I didn't get who it was until about forty-five seconds into the call – only that this guy was calling about one of my accounts. I said, "Oh, sure," and then I put the phone back, thinking back to all those words and wondering, what did he say? It was Peterson and he had called to ask some questions and maybe point me in a little different direction in which the bank was going vis-a-vis this account.

And then he met Peggy, and Peggy passed the saliva test. I told you about the dinner when he came down and accepted the award for Clark Beise.

LaBerge: Yes, it was pretty good for her to pass it when she was so candid! [laughs]

Clausen: Well, Peggy has always been a bit irreverent. She's very serious now, because she's so mixed up. I am truly deeply saddened that this has impacted on Peggy. Peggy will still join us and she'll sit and listen, but really she cannot participate. She's gone from irreverence and being the life of the party where everyone liked and loved Peggy, to her condition now, and it's difficult for her. It's also difficult for me and for our family.

But going back to her meeting Rudy Peterson, six weeks after that happened, I was transferred to the north. I came up to run what was called by then Corporate Finance, the counterpart of the Category Section in the south.

Missing the Los Angeles Home

I will say we missed our home in Los Angeles on Mayflower Drive. It was our "retirement house." The San Fernando Valley is great in the evenings when it gets warm and in the rear we had a wonderful screened porch that my father had helped me build. And we had just built a very nice swimming pool. But all of a sudden, I was transferred up here to San Francisco, unable to enjoy that pool. I only swam in it twice. It was kind of a trauma with our two sons. By 1963 they were old enough to have really enjoyed swimming in that pool, so they missed it too. But be that as it may.

Lloyd Mazzera as a Mentor

LaBerge: Were there other mentors for you as you advanced in the bank?

Clausen: Another person who was kind of a mentor for me was Lloyd Mazzera. He was the head of the General Finance Committee, which I would say was the third most powerful job in the bank. In order of power, it would have been the president and CEO, then the chairman, and then the chairman of the General Finance Committee.

Corporate Finance in the North

LaBerge: When you came to take over Corporate Finance, was it organized differently than the Category Section in the south? Did the north also have the electronics industry that you did?

Clausen: It was organized around the kinds of industries located in the north. They had a lot of trucking up here. They had what was called food and nuts. There were more food and nuts growers up here than down south, particularly on the nuts side, because of the almonds and so on. There was construction. As to electronics, I would say yes to your question, though electronics was kind of merged in aerospace. They had some electronics, but the groupings were not identical.

So I came to run it, to be the top of the pyramid. I was a vice president, but there might have been five or six other vice presidents reporting to me, and then maybe half a dozen assistant vice presidents. I think there were sixteen officers up here.

Harry Cordere; Philosophy on Professional Psychologists

Rudy Peterson became a mentor too and when I wanted to make a personnel change, Rudy had the idea that we would get a professional psychologist by the name of Harry Cordere in to help us. Are you familiar with that name?

LaBerge: No, I've never heard it. Rudy didn’t talk about him but I'd like to hear about that.

Clausen: Peggy and I were members of the same church as Harry Cordere. Harry had been hired earlier by the bank to interview officers, vice presidents and above and write personal assessments. Harry would make an appointment with you and then he would sit down and talk to you for a couple of hours. “How are things going? Where do you fit in here? You're in Corporate Finance. How's it going?” He would explore things with you up, down and sideways and then he would write reports for some senior manager or management group to review. I had been interviewed by Harry Cordere in the south.

Then one day after I came up north as head of Corporate Finance, Mr. Peterson called me up to the eleventh floor – at that time the bank was headquartered across the street at 300 Montgomery – and I was on the third floor. I took the opportunity to say, “You know, I think we could do

a lot better in the quality of people we have in Corporate Finance. Is it all right if I make some changes? There are one or two people that I would like to build around."

So now Harry Cordere came to see me to give me his assessment of some of the sixteen people now reporting to me. Harry reported his impression of their attributes but also their deficiencies. It was a kind of brainwashing because implicit in it was the idea that I ought to view these people the same way he did. But it just so happened that he began running down one of the few people whom I wanted to be a core player in the stronger Corporate Finance group I envisioned. That bothered me greatly. I said, "Dr. Cordere," (I think he was a doctor) "I live and breathe and work with these people down here, and I think I know them better than anybody who's come and only spent a few hours with them. And what you said about one of these people is dead wrong. I want to build on what these people have, and this one in particular." It upset me greatly.

When I talked to Rudy about these people, he said, "You're in charge, bottom line. But do it right. Don't screw it up."

Cordere kind of faded off in the distance. I don't know what they did with his work, but I made up my mind then I would never do that. I would never bring in a psychologist from outside the bank and make key decisions based on his or her views over the views of my managers.

When I was in the World Bank, Bank of America's management brought in a psychologist.

Ichak Adizes

LaBerge: Ichak Adizes?

Clausen: Yes. The only person who has said it was the right move to bring in Ichak Adizes was Sam Armacost. Adizes was brought in by Sam and that exercise cost us $5.3 million spread over three years.

[Reference: End tape 12, side B, begin tape 13, side A]

Clausen: There are some terrible stories told about the Adizes experience. People were brought in to talk for two or three hours. Adizes would ask questions, probe, and challenge. He must have been a very exciting person. But the process didn't reach any conclusions such as, "What does all this mean?

Do we change course? Which way do we go? Do we regroup? Do we reorganize? Do we change our standards?" None of that. That is my reading on the aftermath of Ichak Adizes.

Clausen: When Rudy Peterson became president, he wanted to develop his officers – to expand their horizons and help them be better representatives of the bank. So he sent thirty of us to "couth school." Did he tell you about that?

LaBerge: No.

Clausen: Rudy became the CEO in late 1963, so this was in 1964 or 1965. A group of younger officers were sent to live for something like two weeks on the Pomona College campus in Claremont, California. We got exposed to iambic pentameter --did I tell you about that?

LaBerge: No. I was expecting you to say to business ethics, not iambic pentameter.

Clausen: Well, we might have talked about business ethics. But we did study Shakespeare. We took two bus trips to Los Angeles -- to attend the symphony and increase our appreciation of music and to have a discussion on international economics. Mike Armacost, Sam's elder brother, was an associate professor, and he did two terms with us. The Armacost family is terrific, by the way. Mike, Robert, and Sam were the three brothers. Their father was the former president of the University of Redlands. So I've known Mike Armacost longer than I've known Sam.

I think those exposures were broadening. We had discussions and exercises. Nothing about banking. The goal was to broaden the psyche of the people attending.

[Reference point: end tape 10, side B -- begin tape 11, side A]

We were also given assignments to write essays, and they had to be eloquent, grammatical, persuasive, and short -- that sort of thing. It was also an opportunity for ten days to mingle and meet and get to know our colleagues. Al Zipf was one of those; Joe Carrera subsequently became vice chairman of the board; Chauncey Medberry was there; so was Lloyd Sugaski; Tom Deane; Bill Bolin; and Jimmy Braunschweiger, whose father, Walter, was the executive vice president. I guess most everyone was under forty-five, and I was just forty or thereabouts. Young guys identified as comers. The bank's belief was, "If we invest in them, we'll be able to reap a richer harvest as a result of broadening their experience."

We called it “couth school,” because it gave us a little couth. I'm all for liberal arts, and it was terrific and broadening. We don't do that very much anymore.

LaBerge: Did you do that under your term?

Harvard Advanced Management Program

Clausen: I wanted to send people to the Advanced Management Program at Harvard, because I had been there.

LaBerge: Tell me about that too.

Clausen: The Harvard Advanced Management Program has been around since the 1940s, the war years. Back then they had a program that would be a quickie for military people to broaden and sharpen their minds on more than just how to fire a cannon. Afterwards, they adapted it to managers of businesses, because it’s a business school, and this program was called advanced management.

I got a great deal out of attending the program, but the history of the Advanced Management Program for Bank of America has not been great. I remember that at one point we had only held on to one of the four people we sent to Harvard. Three left the bank to do other things. You know the name Roy Ash.

LaBerge: Right, I want to hear that.

Clausen: Roy worked in the bank and we sent him to get his MBA from Harvard (this wasn’t the Harvard AMP). Roy is still the only person I know who got an MBA from the Harvard Business School without first having an undergraduate degree to go along with it. Roy is smart. He's a wonderful person. But after completing his MBA, instead of coming back to Bank of America, he went with Tex Thornton to start Litton Industries. Thornton had come out of Hughes. If you look at General Electric today as being a university for managers who are now all over the country -- and they’re super at it -- I'd like to say that Bank of America is also, in a different sense. People who leave here go out and do very well in the world. Okay, I have a little bias here… oh, maybe it's a lot of bias. But other banks and companies really appreciate how good our people are.

Yesterday Dick Rosenberg attended his swan song reception in Los Angeles, and Dave Coulter did a wonderful job introducing Dick.

Rosenberg also made the point that Bank of America people are very good. But we've got substance to be proud about, and good esprit. When we were losing money and going in the other direction and all of that, it just killed us. The fact that we were so hurt gave us the resolve to do what was necessary to pull ourselves back up by our bootstraps and do well again. So we're very proud of our people and we don't like to lose them.

But then the next person that we sent in the early fifties, when he finished the AMP program, he also left the bank.

And then Bob Gordon also went to the Advanced Management Program in the early fifties. But he came back and stayed with the bank. He was the only one in the early days. He later became vice president and manager of Los Angeles Main Office and he was kind of a power in his day.

So there were perhaps three that we sent to the Advanced Management Program, plus Roy Ash. We lost three of the four. So colloquially, we said, "When we send them there, they leave. But we can fix that. We won't send our people." And for a while we didn't, until Rudy Peterson sent me in…

LaBerge: 1966, I think.

Clausen: Yes, 1966. Harvard has fall and spring programs and each is thirteen weeks long. I was in the fall program. Years earlier, Jesse Tapp had recommended me for attending another management program called Arden House at Columbia University in New York. Those accepted had an average salary of around $25,000 and I thought I might have been rejected because I was making only $12,000. So I said, "Well, Mr. Tapp. We can fix that." [laughter] I could have said, "I'll take $25,000," but I didn't. Looking back, I'm sure I wasn't accepted to the Arden House program because I was too junior at the time and I had too little experience.

Benefits of Attending the Harvard Advanced Management Program

Attending the Harvard Advanced Management Program had a big impact on my life. One of the biggest things I learned was that I wasn't the unqualified little country boy that I had imagined myself to be. I came to realize that I am well qualified and well educated. No, I'm not an economist and yes, I'm always admiring people who are terribly articulate and thoughtful. But I came to know that I can recognize what's right, and I have a quick understanding of problems. The experience of Harvard did a lot for me because I got the confidence that I can hold my own with my

peers. The Advanced Management Program I attended was the 50th, so at the end a special program was staged for the public. Out of a class of 160, I was one of eight asked to give a presentation. That was quite prestigious.

It wasn't that I learned anything startling in the Advanced Management Program. But it took my prior experience as a manager and pulled it out and organized it in my mind. It made me think more deeply about all the pieces of management – about accounting, about stock issuance, about managing people. Each one is a piece of the mosaic and at the end of thirteen weeks, if you're reasonably smart -- and everyone there was reasonably smart because they were advanced managers – you put it all together and it takes shape and you have a more complete grasp. And at the end of the program, I felt in command. I felt I was in control of what I could produce as a manager from that point on. I felt confident I could handle bigger management positions. That kind of program is a stepping-stone for CEOs. And our class was filled with future CEOs. People like Don Platton and Dick LeBlond, who became number one and number two of Chemical Bank, and Kaneo Nakamura who became CEO of IBJ, the Industrial Bank of Japan. I just had lunch with him last week.

Role in the Living Quarters

The living arrangements at Harvard helped my development as well. Harvard's living quarters were set up so that eight people in four suites used the same bathroom. Each of these groupings was called a "Can," and we had Can officers. The camaraderie was terrific. Since my background was finance, I became the Can's treasurer. I bought all the booze and kept track of the financial part of the Can. I did not want to be the Captain of our Can, and I was always promoting my roommate. I'd never seen him before. He was from the Railway Express business.

LaBerge: What was his name, do you remember?

Clausen: Yes, Truman Moore. Now he lives in Michigan, and we still correspond with one another. Truman is really retired. He does nothing! Well, he has a little health problem, but don't we all? And we ran Truman to be the president of the Class. He didn't make it. Frank Bueller became the president of the class. And Don Platten was the vice president of the Class. Don had come from Chemical Bank and later became the President of Chemical Bank before Walter Shipley. Don Platten then retired and died early. He was maybe a couple of years older than I am, and he died four or five years ago. He was a great individual. A big individual. There are great people who are very small, and there are great people who are larger than

life. Don Platten was one of the latter. He had great character. I admired him very much.

Gaining a New Focus on Human Resources

One critical thing I got out of the Advanced Management experience was in the area of human resources. It focused us all on sensitivity to people, how to manage people, and how to get along in an organization. Ralph Hauser was a professor. He taught every class in a kind of mini-amphitheater. I'm sure Berkeley has the same thing.

LaBerge: Oh, you mean their outdoor amphitheater?

Clausen: No, inside. Fifty seats in a little amphitheater. It's not very deep and the professor is down below. Professor Hauser would start things off by twirling a fifty-cent piece or a dollar. We'd have had a case to read, and he would look at the class and all he would say was, "Who wants to start?" Every lecture began that way. One remembers those things. So he gives you the case, for example, that a superintendent of a factory has got a personnel problem, and he would describe the problem and then the class would discuss it. He would guide the discussion, orchestrate it, and extract the managerial kernels from that case. He was wonderful.

The Value of Planning

The other thing I really got from my Harvard experience was the concept of planning. You might say I got "planning religion." So much so that now I say the process of planning for the future -- for the tomorrows and the ensuing tomorrows -- is as important, if not more important than what comes out of planning. The greatest benefits of planning come from the process of thinking and discussing the relevant issues. So when I became CEO, I put formalized planning into the bank's management process. As a result, we had three-year plans and a discussion each year on the plan, until today it's part of the fabric of management. I'm very proud of that. I firmly believe that in the process of developing plans, you're forced to think about and discuss all these things and reduce them into the language of the business you're in -- whether it's manufacturing, administering a hospital, or running a global bank like Bank of America.

I think that process is terribly important, and I've said time and time again that we showed the benefits for our shareholders in bottom-line results and growth results -- from $26 billion at the end of 1969, Rudy's last year, to almost $112 billion at the end of 1980, my last full year before I went to

Washington. Our profits escalated from $152 million net after taxes in 1969 to a little short of $650 million eleven years later. That was *because* of planning, not in spite of planning.

It's the exercise of asking -- not forcing -- your senior managers to go through the process of planning for the future for their individual units. It helps them become better managers. So yes, I hope historians will say that one thing I contributed to BankAmerica Corporation was planning. We became more sophisticated through the process of planning.

Rudy's contribution to the bank was making us international. He opened the world for us. The contribution of Clark Beise, as I see it, was to give us credibility and raise the esteem in which Bank of America was held by its peer group -- by the professionals, the analysts, and by our competitor banking institutions.

Clark, and later Rudy, did a lot to clean up some of our accounting from the past. Before them, apparently, it had been acceptable in the bank to reach forward and overstate income, which sooner or later, you have to square on the books. Clark inherited a large amount and he reduced it during his nine years as CEO. Rudy then reduced it further and finally squared the books. Mind you, from the early days until the last year or two of Rudy Peterson's presidency, we were not audited by one of the Big Six or Big Eight accounting firms. We did not have Ernst & Ernst, then Ernst & Whinney, and now Ernst & Young. I'm telling you all I know about this, because Rudy told me about it. He said he'd squared the books. So today, our accounting practices and our planning processes are better. As I said, the value of planning was something I really embraced from Harvard.

Sending Other Bank Officers Through Harvard's Program

One bank officer who went to the Advanced Management Program after me was Al Zipf, and he went the following fall. There may be a couple of others after Zipf and before I became CEO in 1970. But I was so favorably impressed with my experience at Harvard, I resolved to put all our best people through it. I was thinking wouldn't it be wonderful if ten or fifteen years out, Bank of America had fifteen or twenty of its senior-most officers who would have had the Advanced Management Program experience? I could envision that time.

LaBerge: Well, who did you send to Harvard after you became CEO?

Clausen: For the first eight or nine years, I sent one almost every spring and every fall. I sent a lot of people. Not very many are left and not very many are with the bank. But back in the fifties and sixties, the feeling of employees was "ours is to do or die but never question why."

Recruited for Presidency of the First National Bank of Minneapolis

LaBerge: In the mid 1960s, Bank of America senior managers clearly saw you had potential. Did any company outside the bank try to hire you away?

Clausen: About the time I was attending the Harvard Advanced Management Program, the First National Bank of Minneapolis was seeking me to become their president. The First Bank system had banks in Minnesota, Iowa and throughout the West. They wanted me to take the heir-apparent position for two years and then be promoted to the top job. But I was finding a lot of challenge in Bank of America.

V. President of Bank of America, 1970-1981

Candidates for the Job of President of Bank of America

LaBerge: Was there speculation that you were going to be the next president of Bank of America?

Clausen: Well, most of the public speculation focused on Clarence Baumhefner, who was Rudy's chief financial officer, and Sam Stewart who was the chief administrative officer of the bank.

[Reference: end tape 14, side A. Begin tape 14, side B]

LaBerge: Okay, but some people obviously were focusing on you.

Clausen: In retrospect, yes, you've got to say that. But it was not obvious to me. In the spring of 1969, Rudy asked me to go down to Los Angeles and make a presentation to the board on what the bank was doing in our small business investment company which we called Small Business Enterprises. We were doing some very exciting things. For an investment of a few hundreds of thousands of dollars, we were making millions. I was an officer of SBE and Chauncey Medberry was the chairman. I had been making the principal investments, so I made the presentation to the board and then left the meeting. Before I went home, I stopped by to see my mother who lives in Los Angeles. Along about five-thirty, the phone rang and my sister answered it. It was Rudy Peterson for me. (I don't know how he knew I was there!) He said, "I know you're at your mother's, and it might be interesting for your mother to know what happened today." He said, "Congratulations. The board has elected you to be a vice-chairman of the board and a member of the board of directors."

This just floored me. It was out of the blue. Then I think he told me, "That means you are the candidate chosen to succeed me when I retire at the end of the year." I was shocked. He added, "It's only appropriate, Tom, that you should learn this when you're having dinner with your mother." I couldn't disagree with that [chuckles]. Then he asked, "You're coming back to San Francisco tonight?" I replied, "Yes." Rudy said, "Then stop by and see me tomorrow morning first thing and we'll talk."

LaBerge: Even though you're not a morning person, you'd be there?

Clausen: Well, sure! I was terribly excited. I hung up and told my mother and my sister and called Peggy. And they were all pleased and very surprised, as was I. My mother was very proud that I had been designated the next CEO. I was forty-six at that time.

They didn't use the term “CEO” in those days, though they were beginning to use the description of “chief executive officer.” I didn't use the term CEO before I went to the World Bank, when it had become commonplace. My feeling was that if you can’t tell who’s running the place, you don’t need to be here. Goodbye. Effective leaders don’t need to be designated with that title. Their leadership is just evidenced. But use of the term later became common practice.

LaBerge: It sounds like there was no discussion about the position before you were offered it.

Clausen: I was not asked whether I would take it. It was just assumed I would when the board decided to choose me.

LaBerge: Were things different for you when you got back to the bank?

Clausen: The next morning I saw Rudy and Baum at the eleventh floor executive office. Did you ever see that floor?

LaBerge: No.

Clausen: It was in the 300 Montgomery building across the street where our headquarters used to be before we moved into this building. The elevator opened in the middle of the room’s wall and as you got off the elevator there was a receptionist. Then there was a string of desks as you walked towards the windows. The chairman of the General Finance Committee, Clare Sutherland, sat at a desk cattycorner to the corner. The CEO sat in another corner. Baumhefner had the first desk as you made the turn on the inside. Then came [chief economist] Walter Hoadley and Roland Perotti, the young head of personnel. The most senior officers in the bank all sat together. When I arrived on this morning, Clarence Baumhefner walked across and shook my hand and congratulated me.

My designation was a big surprise to most people in the institution because I was living in the background. I've never gone around tooting my horn. But the reaction was very positive. It was a bigger surprise to people outside the bank, although I can't recall that the street was rooting for somebody else.

Baumhefner was maybe fifty-four or something like that. Sam Stewart was about sixty. Sam was a gentle man. He was a lawyer and the general counsel. But in my book he was not a manager. Anecdotally, we said that Sam couldn't fight his way out of a wet paper bag. Brilliant on a decision, but he couldn't really *cause* things to happen. Any manager has got to be able to cause things to happen -- hopefully by leading through setting the right example.

[Reference: End of Tape 25, Side A. Begin Tape 25, Side B]

When I became the president in January 1970, at my first board meeting as chief executive officer, the board made Sam Stewart a senior vice chairman of the board. Lou Lundborg was the chairman of the board and he reported to me. Baumhefner was also a vice chairman by this time. Today, we have vice chairmen who are not on the board. Lew Coleman was a vice chairman of the board, but David Coulter was not and he was a vice chairman. Through an oversight, a year ago when Coulter was made president and designated to become the CEO on January 1, he was not elected a director of the board. That was just forgotten. The question then was, do we have a special election to place him on the board? And the decision was, no, we just admit we forgot it and we treat him as if he's a member. That was corrected at the next board meeting in October when he was elected a member of the board as well.

Looking Back on Selection as President of Bank of America

Though I was shocked when the board selected me as the next president, looking back at my early career, I can see that people treated me a little differently. I was a member of the bar and that was unusual for a banker. I was given respect, which I appreciated. But I never sought notoriety or attention as part of my game plan for career growth. On the contrary, my game plan has always been to do my best to produce, to be honest, to be a good listener, and to cause good things to happen. I'm not bragging. It's just that I've always been able to do that. And that brought me to the presidency.

First Priorities as CEO

LaBerge: What were the priorities you saw when you became CEO?

Clausen: Well, we faced plenty of business challenges. But we also had organizational issues to work through in terms of planning, profit analysis,

communications, and so on. In addition, the society in which we operated was now questioning every aspect of how companies did business, and we needed to respond to that and take a leadership role. This is when the term "corporate social responsibility" came into the language.

Internal Communications

I had known since the previous May that I was going to succeed Rudy, so I had been looking closely at the bank's operation. I saw that communications within the company was one area that wasn't as effective as it needed to be. Internal communications are terribly important, particularly horizontal communications. Communications top down the management chain, that's pretty simple. "Now you do this and next week I want you to do this. I want this done by the end of the month and come back and tell me what you've done, because I'm your boss." But the difficult part of communications is horizontal -- side-to-side -- when you have invisible equator lines to jump over. Nothing works right if you don't communicate well.

So when I first became CEO January 1, 1970, the very first thing I did in that month was to appoint a task force on communications chaired by Jerry South, who was then the corporate secretary. In that role, Jerry was secretary of the Managing Committee and secretary to the Board and he and his staff provided communications services. I appointed him as the chair of the task force to determine how we should change our methodology of internal communication so that we're all reading off the same menu. Said another way, I wanted us all pulling our oars together so the ship would go in the same direction.

LaBerge: Speaking of communications, when you became CEO how did you get your senior managers to engage with your goals and support you? You were pretty young for a CEO of a major company.

Engaging Senior Managers' Participation

Clausen: In those days, forty-six years old was not terribly young. But you're right, I was one of the youngest in the bank's management group. In January, my first month of office we had our annual senior management retreat at Silverado. I don't mind saying, I was scared to death. But everyone just opened up. I never had any difficulty engaging people in conversation and in orchestrating meetings and in getting people to participate in discussing the issues which I would put on the table. I don't try to intimidate. I can use the intimidation approach if I have to, but I believe it's better to use a

negative emotion only when it's really called for, and then very deliberately. At all other times, it's more productive to show the positive emotion. Of course, one place you don't want to appear too happy is at the negotiating table, because the person on the other side of the table might think, "See, he's really happy. He's probably willing to come down farther than I figured, so I'm going to try to get him down a little bit more." But as a regular thing, showing positive emotions produces better results.

It wasn't my style to try and get results by intimidation. My style is collegial because I believe that the quality of the final judgment will be improved to the extent you put all the issues on the table and discuss them. But I've seen a number of different management styles and I tried to learn from all of them.

Bob McNamara's Style

Bob McNamara, for example, will go down in history as someone who made a tremendous impact on the World Bank. He took it from a little baby and thirteen years later, the volume of loans at the World Bank had gone from, say, $1.5 billion, ballpark, to maybe $9 billion when I took over.

But Bob had a unique style as a manager. He would call in ten people, one at a time. He would tell the first one, "Germaine, I'm glad you came. I want us to talk about this issue. What do you think we ought to do?" He would keep a pad of paper and a pencil in his left hand and he always took notes. (He was a left-hander and at lunch, he'd eat with his right because he always had the pad near his left hand.)

You might say, "Well, I think we ought to go four degrees to the right." He'd say, "Thank you very much." Then he'd invite a second person in who might say, "I think we ought to go six degrees to the right." Next he would invite Rudy Peterson in and ask him the same question. Rudy might say, "I think we ought to go two degrees to the left." Bob McNamara would do that ten times and then make up his mind.

Finally he'd say, "We're going to go two degrees to the rear." Then because he's talked to ten people, he's got to call ten people back. "Germaine, I thought your analysis of the issue was just perfect. No one was better. But we can't go four degrees to the right. We're going to go two degrees to the rear." And when he hangs up, you say, "That son of a gun. He really wasn't listening to me." So then he's gotten unhappy people. That's painful and laborious.

Rudy Peterson's Style

Rudy Peterson had a managerial technique that I've used many times. You get ten people around the table and say, "Here's the issue." You put it in the middle of the group and you discuss it together. You don't really fight over it, because most often you're dealing with terribly complex issues and there is no perfect solution. For example, there is no perfect utopian decision that can be made in dealing with $49 billion of burdensome debt for Mexico that's just being pushed into the ground. The people of Mexico have got to have some relief.

So then the complexity comes in, "What kind of relief?" And a better decision will be made if I hear your objections and arguments for or against, and you hear mine, and we both hear others, and then we come to some consensus, picking the least imperfect solution to a very complex issue. I learned this from Rudy Peterson.

The Multinational Division is Created

In Rudy's last year he made a determination of how to reorganize our corporate and international activities. We had a National Division and an International Division, and Rudy created a Multinational Division under Ralph Young. He created it because he came to believe that we had gigantic corporations as customers who were doing business globally and who had special needs that were similar among them. They had unique currency problems, political problems, and government stability problems, but the basic fundamentals of the business were the same. A rose is a rose is a rose. A steel plant is a steel plant is a steel plant, whether it's in Korea or Brazil or Pittsburgh.

Rudy appointed a task force to study this and got them all together in the board room across the street at 300 Montgomery Street. Rudy orchestrated the meeting and drew out people's views. I thought that approach was good. (Rudy can also be intimidating, and at times he was. I assure you that he would confess to that.) There were sticking points, but we did reach consensus as a group, unlike the approach that Bob McNamara favored. I'm not picking on Bob, just giving you examples of different styles for reaching a decision.

LaBerge: That's all right. This has been great.

[Reference: End tape 5, side A. Begin tape 5, side B]

Rudy had a close friend of his at this big meeting, Bob [Robert] Anderson. He was the former Secretary of the Treasury under Dwight D. Eisenhower from 1957 to 1961. He later went to jail for tax evasion, but that's neither here nor there. He was kind of an advisor to Rudy and he held forth at this meeting. But Bob wasn't much admired by the troops and I was part of the troops in those days. To get to the nub of a problem with Bob, you always had to jump over his id, because his id always played a role in it. At one point, Bob was invited by Rudy to take part in what's called WOBACO, our World Banking organization in the Caribbean. Those were the days of consortia, and Bob had been about to get a piece of the action with big banks. I must say that as a managerial concept, it doesn't make sense to me to have individuals participating financially with corporations. Bob Anderson had to be lent money to get a piece of the business. It can get you into trouble.

I don't mean to be disrespectful of Bob Anderson and I got to know him in a different way when I went to the World Bank. He came in and proposed how he was going to help the World Bank. He told me more about the background of IDA, the International Development Association, the second piece of the World Bank group that had been developed under the Eisenhower administration. Bob Anderson knew the history, and he caused me to read it voraciously. I was probably the only person in Washington who read all the testimony on the creation of IDA. I did that because I was fighting for the U.S. to step up and contribute what I thought was its fair share to supporting IDA. But I struck out on that.

Improving the Wholesale Organization

When I became a CEO, I later questioned our whole organizational approach to serving corporate customers. We had a national division, an international division, and then Rudy's multinational division. I felt that wholesale is wholesale. Yes, we treated wholesale in Europe a little differently and we treated it a little differently in the U.K. and Germany. But that was in terms of local-level customs. It seemed to me that our overall administration ought to be one structure. Besides that, I felt we had too many individual invisible equators within our organization. There was some NIMBYism in there -- the attitude of "not in my back yard," There were people who protected their turf and wanted others to stay out of their territory. I wanted to get rid of those invisible equators, and so I wondered, could we put the whole thing together?

Applying the Collegial Approach

I can remember using Rudy's approach. I brought some fifty people together in the board room here on the fifty-first floor. Al Rice was part of that, Ernie Young of travelers checks, Ralph Young, Hal Osborne, Ken Campbell who headed the National Division, the head of the legal department, head of personnel, head of trust, and heads of the various pieces of the international division. There were people there like Jake Bueller. Jake was a top credit guy, a wonderful man. His son works for us now. He’s a senior officer and he runs Canada for the bank. He’s a chip off the block. Jake helped me tremendously while I was learning the international side, because I never lived abroad, and I wasn't abroad when I was chair of the general finance committee.

At this meeting I went around the table and I called on every single person. I asked, “What do you think of the idea?” Various people said, “Well, if you do this, you've got to be very careful of this. If you do this first, you've got to make sure that people are well informed.” Someone else suggested that the internal memorandums announcing these changes ought to be signed by the CEO. There were lots of suggestions and everyone had their qualifications, but we all tuned into each other, and the thing spoke for itself. After a long session, there was consensus that, “Yes, there is some danger in doing it this way, but if we really understand this thing and work jointly, if all that can happen, we’re in favor of it.”

Improving Communication at Senior Management Retreats

Rudy had started holding annual senior management retreats, and I continued those. The first few Rudy held were very successful, but one was an utter bomb. At the bar one night Rudy publicly chewed out one of the senior officers. We all noticed that and the free-flowing dialogue was just destroyed. The next day, our meeting was a disaster. I didn’t forget that and from that time on, I tried to not let that happen to me. Within my first thirty days when we took the senior team up to Silverado, I used the collegial approach. I got everyone out of the corporate uniform by having them take off their ties and get in sports clothes. I also had been to conferences where there were tables with place cards in front of everybody with cloth draped around the tables so you can’t see people’s legs. In my view, that wasn’t good communication. You've got to see the whole personage. So in Silverado I had us sit in chairs in a circle where you could see the whole body for full communication. That turned out very well.

Isla Vista and Social Policy

LaBerge: Shortly after you first became president in 1970, the Isla Vista branch was burned down. I thought that would be a good start to talking about the social policy of the bank and your work to deal with major social changes taking place. You were out of the state at the time of the burning, weren't you?

Clausen: That happened on February 25, 1970, my son Eric's birthday. At the time, I was traveling the country as the new CEO and I was gone a good deal that first year talking to employees and calling on customers. I got a call telling me about the burning of the branch and it was suggested that I hold a press conference because it was national news. We didn't know who did it, but it didn't help that earlier in the day a well-known activist had given an inflammatory speech on the nearby campus of the University of California at Santa Barbara.

LaBerge: Mario Savio?

Clausen: It was defense attorney William Kunstler. His talk seemed to stir up more rage against "the establishment" and our branch in Isla Vista was a convenient target. When you leave the campus of UC Santa Barbara to go into town, you pass that branch. We learned later that there were both students and non-student radicals living in the area who were in the crowd when the branch was burned. We determined that Bank of America had to have some kind of response. We decided that we would not direct our anger at the university over this act of violence against Bank of America. We were going to continue to support universities because they were not responsible for the individual actions of students. But we were definitely going to stand up for our rights. And that was the way the headline came out -- that Bank of America, as I think one press account said, "turned the other cheek."

You need to understand that this was a time of very heated emotions in America. Dissidents wanted to get the U.S. out of the war with Vietnam. Bank of America carried a name that sounded like it was a central part of "the establishment." We were perceived to have a powerful influence on the government, so they were going to do harm to us so that, for our own protection, we would cause the government to shut off the war. Of course that thinking was convoluted. But in general that was the thrust of that effort. So I held a press conference, the first one I did out of the state.

We rebuilt the branch at Isla Vista almost immediately, and we made it a fortress. As protection, we set up the branch with an overhang that had powerful jetstreams of water that could come down and knock people to the ground. But two months later, on April 18th, extremists in Isla Vista again were in an uproar and they set fires in several businesses in town, including our branch. A call went out for the community to help put out the fires and one student who actually went to help at our branch was shot and killed. His name was Kevin Moran. That was the second incident at Isla Vista.

Then later that year in November another branch of ours, near the University of California at Irvine in Southern California, was burned almost to the ground. It happened a Saturday night. Once again historians generally associated that action with students. We had already made up our minds that we were not going to be intimidated, so over that same weekend we brought in two mobile house trailers. We put them side by side and mounted flower boxes on the windows and filled them with growing flowers. We brought in some big tubs with a couple of trees. We landscaped the trailers and on Monday morning we opened our branch right across the street from the burned-out branch. Our message was, “We don't know who did this. But the Bank of America will not be intimidated.”

Chairman Louis Lundborg Speaks Out on the Vietnam War

The Vietnam war was perhaps the most divisive thing the society of the United States had faced since the Civil War. In the 1960s and early ‘70s, the debate raged across the country as to whether we should or shouldn't get out. Our chairman of the board was Louis Lundborg and he had his own strong views. Lou had been made chairman of the board under Rudy Peterson and he continued on as chairman under me until he retired. In those days, we had two headquarters. One of course was here in San Francisco where the bank was founded, and the other was in Southern California. To maintain a strong presence in both places, the CEO was based in San Francisco while our chairman, in this case Lou, operated out of our Los Angeles headquarters where he was the senior officer.

Lundborg was not a banker. But he was a very charming individual, a very handsome man. Gray hair, very articulate, very thoughtful, outward-going, exuberant. And he felt very deeply that the war in Vietnam was wrong and the bank should take some overt position vis-à-vis the war.

It’s helpful if I tell you something here about the bank’s management structure. The Bank of America has a Managing Committee made up of the company’s most senior officers. It meets periodically and frequently. The Managing Committee really runs the bank, and now it runs the corporation. In those days we had a board meeting every month. So we had twelve board meetings in a year. There are certain things that the board alone can do. The Managing Committee could not declare dividends, it could not borrow on the open markets, it could not issue shares. That's all the province of the board. Neither could the Managing Committee change the CEO, designate the president, nor grant senior titles. That was a board prerogative. The minutes of the Managing Committee’s meetings are kept in detail and circulated to members of the board of directors so they know what the discussion points were and what decisions were made -- about investments, branches opened, things of that sort. So the board is kept fully apprised. That's our management structure.

I can't recall whether we discussed at the board level whether or not we should take a position vis-à-vis the Vietnam War or what our position ought to be. I know we discussed it in the Managing Committee, and that was picked up by the board of directors. In the Managing Committee we concluded that the bank should not take an overt position against the war other than that we are against violence -- we do not condone violence as a method to cause change. We do support involvement in discussion between those with different views.

Lou flew a little bit against the current in his individual stance and expressions and feelings about the Vietnam War. Senator J. William Fulbright, the senator from Arkansas, had hearings on Vietnam and what the United States should do because there was a lot of debate on that among young people in this country. Senator Fulbright was a marvelous man. I got to know him quite well when I first went to Washington with the World Bank many years later. Did we have a draft for the army then or was it volunteer?

LaBerge: No, we had a draft.

Clausen: Yes, I remember now. A lot of people were going to Canada and elsewhere trying to dodge being taken in the draft. The war really bothered a lot of young people. A good many of them were in universities, so there were a lot of university incidents in those days. The issue was very heated and Lou Lundborg decided he would testify before the Fulbright committee.

LaBerge: As a private person or as the chairman of Bank of America?

Clausen: Well, I'm coming to that. I read the draft of his testimony, and I could not object to what he said. But the part that bothered me was, “I'm speaking as a private individual. These are my private views.” He might even have said that in no way was he attempting to express the viewpoint of the corporation and bank of which he was a senior officer. My quarrel with that is that when you're in that position, there’s no way that you can speak as a private individual. You can conversationally, but not in a public forum as when when giving testimony. I said that to Lou, but nevertheless I could not forbid him. Also, here I am, forty-six years old, and Lou who was in his sixties and old enough to be my father, I could not say to him, “Don't do it” nor could I say, “As your boss I forbid you to do it.” I didn't, and he did. He got a lot of attention. And I was right, because that was perceived to be the Bank of America view on the war. There are a lot of lessons to be learned in that. Did you know that we took out full-page ads after Isla Vista?

LaBerge: I read some of them in your scrapbook.

Clausen: It says, “We take our stand in Isla Vista.” In essence, the message was, “We will not be intimidated.”

LaBerge: Yes, and there was more to it than that. It was very empathetic to concerns --

Clausen: To the concerns of young people, yes. We also wanted the public to know that we're not going to punish universities or have vindictive thoughts. We know that the universities have little control over student behavior. We believe in the value of higher education and we told the public that they can count on the full support of the Bank of America, which has always been supportive of institutions of higher education. But we are against violence. That's the general thrust of those ads. I've not even thought about them for twenty-six years now. Looking back, I think it was quite commendable how we handled the press, the tone we used in our full-page ads, and the stance we took against violence.

I can recall one night early on at Rudy Peterson's home in Piedmont when he hosted Paul Demarest whose corporation became partners with the Bank of America in our attempt to get a foothold and break the barriers against foreign banking in Canada. At that dinner, I remember Charles Hitch from the University of California…

LaBerge: He was president.

Clausen: Yes, president, and I had not met him before. This was early on in my administration and soon after Isla Vista. Before we sat down to dinner, he came up to me and said, “I'm Charles Hitch, and I just want to say, Mr. Clausen, how much we admire the public stance that Bank of America has taken on these unfortunate incidents that have occurred.” I appreciated that.

I can remember somebody exploded a bomb at one of our San Jose branches some time after that. A lady called me the next morning. She was a customer of that branch and she was very concerned about her money. That branch was where she put her deposits every week and that's where she went to get her money back. In her mind, that physical location was where her money was. She wondered where she could move her money so it would be safer. I explained to her as calmly and confidently as I could, “Money is fungible and it's absolutely safe no matter where it is. We account for it centrally, and if the whole branch had just been blown to bits, your money would be safe. There’s no reason for you to worry about it.” She hadn't realized that.

LaBerge: Bank of America seems to have developed quite a social policy, and it seems like it did that under you. Where did that come from?

Clausen: Well, it was my concern that Bank of America should be attuned to our constituencies, and how best could we do that? So I established two committees, one inside the bank and one at the board level. The inside group was the Social Policy Committee, made up of close to a dozen managers from different key functions of the bank. A senior officer chaired the group. That committee would meet almost monthly to discuss whether the bank’s policies, both explicit and implicit, were being responsive to the challenges facing the institution and our constituencies.

Then I established the Public Policy Committee at the level of the board of directors. An outside director chaired this group and I made the chairman of the bank's internal Social Policy Committee the secretary of the Public Policy Committee so there would be open communication and continuing liaison between both groups. Wally Haas of Levi Strauss was the first chairman of the Public Policy Committee. Wally had great sensitivity to the needs of people and communities. The Public Policy Committee had five outside directors and several senior bank officers, including Chauncey Medberry who had become chairman of the board and Lou Lundborg who had retired.

[Reference: End of Tape 25, Side B -- Begin Tape 26, Side A]

I told you earlier that I believe in the collegial system – that more input from more people will improve the quality of judgments. The very process of honestly seeking the views of others was critically important to Bank of America, given our history, given our heritage, given our tradition, given our origins. The very reason A.P. Giannini created Bank of America in the first place was to respond to the deeper needs of people. He created the bank back in 1904 to take care of a segment of society that was discriminated against: the "wops." The Italians. These people were scorned. Giannini's parents were immigrants and he felt that scorn very deeply -- so much so that he started a bank to take care of these "little fellows." Before he started Bank of America, banks of his time only took care of the advantaged. If you didn't have much money and needed a bank, you had to go to a finance company because banks would turn you down unless you were a J.P. Morgan or a Rockefeller. And so to this day Bank of America still feels that philosophy. It's in the fiber of our senior management group and it's also felt by our directors. Not all the directors have that feel when they become directors, but after a period of time, when they leave and retire as a director, they have it. So they don't necessarily bring it *to* the bank, but it's *in* the bank. Then after a while they see the value of it, which explains why we pay a lot of attention to CRA, which stands for the Community Reinvestment Act, while some other banks only feel they're being harassed by CRA because of the extra work and recordkeeping it requires.

LaBerge: Do you want to say for the record what CRA is? I have down that it was first passed in 1977.

Clausen: That's correct. It was enacted by Congress to encourage depository institutions to help meet the needs for credit in the communities where they do business. This specifically includes low- and moderate-income neighborhoods. And then it requires that each institution's performance be evaluated and rated. And that record is then considered when the institution makes an application to open a new facility.

A little side bar here: Many banks are rated "Satisfactory." In those years, Bank of America was always rated "Outstanding."

LaBerge: As far as social policy is concerned?

Clausen: That's right. It was based on the way we treated our customers. As an institution, we don't discriminate. Other banks can certainly improve their loss ratio by staying out of impoverished areas. But Bank of America is always trying to do good by being good, by going the extra mile to serve people's needs. If you look at the makeup of the communities where we do business you'll see that we're in areas other financial institutions choose not to be. And if you examine the loan approvals and disapprovals for minorities, you'll see that Bank of America does not discriminate. The record will show that.

By the time I came back in 1986, however, our ratings had slipped a great deal and we were rated "Unsatisfactory." But we'll get to that.

Ethics in Corporate Management

LaBerge: Bank of America won a wide reputation, didn't it, for outstanding corporate social responsibility, both among its peers and with public leaders?

Clausen: Yes. An indication of that is I was asked several times in my role as CEO to speak at the Cal business school and in front of church gatherings.

LaBerge: What were you asked to speak about?

Clausen: Business ethics. My experience is that most business people are honest. I remember having a difficult evening with one of my sons at home just before we went to Washington. Our sons would often bring home friends for dinner and one evening he got around to the point that business executives are basically dishonest. It really hit my Norwegian button that one of my sons thought that. I said, "I'm a business executive and head of a major corporation. How do you draw that conclusion from what I do?" Well, he didn't have an answer, but his friend took up the case. There is a wide misperception among youth about business people. Did I tell you that John D. Rockefeller asked me to help bridge this gap?

LaBerge: We talked a bit about your concern for helping youth, but I'd like to know more.

Meeting with Youth

Clausen: I was asked to get involved in an organization meeting directly with youth. John D. Rockefeller came up with staff and funds to get it started and since I rang the bell to get civic leaders to participate, I was the chair of it

until I went back to the World Bank. Bill Maher was one of the young people who took part.

LaBerge: Oh, I didn't realize he was. Bill Maher from Delancey Street?

Clausen: His brother is with Delancey Street. Bill was a supervisor. His brother John was a co-founder of Delancey Street, but he died, and Mimi Silbert, the other co-founder, heads it now. But early in the life of John's brother he was a dope addict in Boston and served time in jail. He came out here after his brother. There were seven people from "the establishment" who took part in the group – people like philanthropist Carolyn Drewes and much later, Leslie Luttgens. The group stayed together for a very long time until I went to Washington, and then it fell apart. But some of the young people have grown up and done well. Anthony Tse, for example.

LaBerge: You told me about him.

Clausen: I just had lunch with Anthony. I took him to the Villa Taverna, a private club in back of Doros Restaurant on Montgomery Street. Doros is no longer in business. Anthony now works for the Bank of America. He's a young vice president and a fine manager of one of our branches.

In this group we talked about business and ethics. Brooks Walker, who was at our luncheon today, was part of this for a while. Bob DiGiorgio took part in this group too. Bill Haynes, former CEO of Chevron, attended a couple of meetings but he didn't continue. Lou Niggeman, CEO of Fireman's Fund Insurance Company was a participant and when Lou died skiing in Switzerland, his successor became a member. The group lasted a long time.

We talked a lot about business. These were angry young people who had formed the wrong view of the establishment. And the establishment had the wrong view of young people. As the young people participated, I thanked them, because we'd done this for ten years by the time I went to the World Bank in 1981, and it helped me understand what my sons were going through when they were teenagers. One of my sons in particular had difficulty. He's brilliant -- a 169 Mensa – but his smarts are in a different direction than in practical living.

Everyone who participated gained a better understanding. I know it helped me in raising my own two sons. And I know it also helped these youth, because they've told me that. Anthony says, "We youngsters learned a lot." That was true for us all. Anthony told me that one of his greatest

experiences was when we were all sleeping together on a hay mound in Sonoma County and picking the straw out of our teeth the next morning. Every other word that Anthony used was a swear word, and very vulgar swear words. But when we got together recently, he had a vest on! He's had some serious operations, but we keep in touch. Now we get together just for friendship.

The Wells Case on Discrimination against Women

LaBerge: Do you want to comment on the Wells case? I believe it was Kathleen Wells in the seventies who sued on behalf of women employees for better salaries, better jobs, and more promotional opportunities.

Clausen: That issue was raised at my very first shareholders meeting. I remember I had a glib response.

LaBerge: Oh, something like, "What's your view on women?"

Clausen: It was my first shareholders meeting in the hot seat of being CEO. It was in April 1970. A woman in the audience got up to speak and I only found out later that she was the mother of one of these bank employees. She stood up and said something like, "We have concerns about the rights of women in Bank of America." And my flip remark was, "Of course. I'd like to go on record. We love women." [chuckles] It eased the tension, and then I addressed it more seriously: "Yes, we are concerned about advancing women and giving them more opportunities." I pointed out that in the spring of 1970 we had more female branch managers than we had earlier. I reported that there was progress being made and that we were going to do more. That's common sense. I remember afterwards I got a little note two days later from Rudy complimenting me. He was proud of me. I surprised him! [laughter] No, I hope I didn't surprise him, and I do remember that incident very well.

But a group of women, Kathleen Wells, Barbara Sowers and Kerstin Fraser among them, filed a class-action suit and a second suit was filed by six other women. AT&T had settled a similar class-action suit earlier for a humongous sum. We refused to go that route so we went to court. Initially, there were proposals to require the bank to adopt goals and timetables for advancing women. But we didn't want to be put in the position of being forced to hire or promote a less qualified person over a more qualified person. The court itself was uneasy over the constitutionality of using goals and timetables. Eventually we reached an agreement that was formalized in a consent decree that set a single overall goal of equal

opportunity in employment at the bank. We did agreed to use goals and timetables, but only as benchmarks of our progress. We also agreed to put extra money towards actively developing women candidates to take higher positions. Only a tiny part of the funds went to redress the past. That was a real win in comparison to AT&T's settlement. I thought their amount was astronomical. The big majority of the money we set aside was forward-looking. We set up four trusts totaling $3,750,000 for training and developing female employees. We looked on that as an investment in our people. We were doing that anyway so this would just accelerate our investment and target it specifically at females. That was part of our culture. We wanted women to advance and take more responsible jobs. And time bears that out. Dick Rosenberg, for example, did a terrific job in promoting women.

Dick Rosenberg Developed His People

I noticed also that Rosenberg is a terrific team player. It takes a big person to give up his or her best employees so they can be given developmental opportunities for the good of the overall organization. We looked for outstanding employees, ones that were young and really had a future, so we could give them experiences like thirteen weeks in the Advanced Management Program at Harvard or ten months at the Stanford Sloan Program. I would always get a candidate or two from Rosenberg. Some of the other managers just sat on their thumbs. They had their own priorities and their own agendas. I think they believed, “This is the best person I’ve got. My bonus is based on my production. But if I give this person up ‘for the good of the corporation’ there goes my bonus.” Rosenberg wasn't that way and he isn't that way. I don’t want to say this was a major problem. It’s just that some people were reluctant, particularly when we were still finding our way, and we still are in terms of increasing return on equity, return on assets, and so on.

Political Pressure on Banks

LaBerge: There must be many external pressures on a big bank. How do politics affect the banking industry?

Clausen: Politics do affect the banking industry, even in a country like the United States that plays the game of banking and the regulation of banking in a transparent way. The United States is terrific, and it is more transparent and open than almost any other country. The U.K. and its central bank, the Bank of England, are pretty transparent. Japan rules by what’s called “administrative guidance,” where they tell banks what to do and what not

to do. There's a lot of interference in Japan as contrasted with the U.S. It's hard for someone who's not Japanese to understand administrative guidance and how the system works. But after years and years, Bank of America and other major non-Japanese banks throughout the world have learned how to deal with the Japanese.

But even in the U.S. I've seen political pressure put on banks. I can remember when I was a member of the Federal Reserve Advisory Council in 1970, my first year as CEO of BankAmerica Corporation. The Council was a group of representatives from each of the twelve Federal Reserve Districts who met with the Fed in Washington on a regular basis. Arthur Burns had assumed his job as the chairman of the Federal Reserve System in 1970 succeeding William McChesney Martin. David Kennedy, the former chairman of Continental Bank, was Secretary of the Treasury. At the time, members of the Administration tried hard to get the commercial banks to make more residential real estate loans. This was for political purposes. They used a lot of rhetoric and met frequently with the banking community in gatherings like the Reserve City Bankers, the American Bankers Association, and the California Bankers Association (every state has a commercial bankers association) to encourage them to make real estate loans. That was one example.

In my view, however, the Fed has been set up to be independent and it should make its decisions independent of politics. In some countries the minister of finance or the secretary of the treasury controls what the central bank does. In the United States the administration impacts bank policies through legislation, and the Federal Reserve impacts banking through monetary policy. But to combine legislative and monetary policy under one roof, that's like "Wow!" On the one hand, how can you say that you're doing something for monetary policy, when on the other hand you have a vested interest in a political agenda?

I can remember Arthur Burns twisting the arms of banks. It's one thing to do it purely for monetary policy, for the fight against inflation, to keep the economy from overheating or to stimulate it a little if it needs it -- those are all the role of monetary policy. But to do it for political purposes, that's wrong.

I'll tell you an anecdote that's really quite dramatic, and it happened in the early 1970s. Al Britten, chairman and CEO of Bankers Trust, had raised the prime rate. But only a couple of smaller banks had followed suit. Arthur Burns called Al Britten in New York and said, "Al, can you come down and see me? Say, within the next hour?" [laughs] Al went down and

talked to Arthur, and when he returned, he lowered the prime rate back to where it was! That had never been done before. That addresses your question, Germaine. Talk about intervention.

LaBerge: You dealt with Arthur Burns on a number of occasions, didn't you?

Clausen: I had a different sort of experience with Arthur Burns just about this same time, when I was on the Association of Reserve City Bankers. The Association was comprised of the biggest banks in the United States representing all fifty states. At one multi-day meeting each year the group always had the Secretary of the Treasury speak along with the head of the Federal Reserve. Pat Patterson, then the CEO of Morgan, was the president of the Association of Reserve City Bankers and he asked me if I would be the program chairman for the upcoming meeting. I didn't think it was too big a job because there was a time-tested format for the meetings. You got the Chairman of the Federal Reserve to speak, you got a panel of bankers to talk about something current -- delinquencies, the slowness in the economy, etc., you invited other speakers in, and you ended it all with a speech by the Secretary of the Treasury.

That was the normal way to do it. Except when I invited Arthur Burns to speak, he said to me, "Tom, just a week before your Reserve City meeting, I'm giving a speech at the Greenbrier to the American Bankers Association. The Reserve City people have also asked me to come give a speech to them three or four weeks *after* your meeting. So I don't want to do another one."

I said, "Arthur, you've got to do it. These are the big banks; these are important banks." He said, "Well, if they want to hear what I've got to say, they can go over to the Greenbrier because they're also members of the American Bankers Association. I argued with him, "Arthur, it just doesn't work that way. Why don't you just come have a conversation with us? How about if I set it up as a panel discussion with some of your friends on the panel? I'll bring in Gabe Hauge (who was in the Eisenhower administration and was chairman of Manufacturers Hanover Bank). I'll get Tom Storrs of NCNB -- North Carolina National Bank. I'll get Les Peacock. He had been an employee of the the Fed and was the president of Crocker Bank. We'll just have a little conversation. You don't have to prepare a thing."

Arthur said, "Okay, Tom. But you'll owe me one." So I thought I was set. But then I couldn't get George Shultz, who was Secretary of the Treasury.

How was I going to have a program without the Secretary of the Treasury and also without --

LaBerge: The Comptroller?

Clausen: The Comptroller, yes. But the Comptroller usually is a non-entity. Not Bob Clark, but most of them are non-entities. They regulate the day-to-day nuts and bolts and they're not too involved with the policy side. The Reserve City Bankers, on the other hand, are involved in the policy side and not with the nuts and bolts. In any case, George Shultz sent Bill Simon to cover his spot. But Simon was only the Deputy Secretary of the Treasury so we didn't want to close the conference with him. Simon had been assigned by the Administration to talk about energy because the Administration was just starting the Energy Department and Treasury was looking at those issues. But during his speech, Simon kept saying, "The president's going to have an announcement next week so I don't want to steal any thunder from him." In fact, Simon didn't say anything, and he turned out to be a bust. Emmett Solomon, the CEO of Crocker Bank, told me afterwards it was like somebody was in registration when you can't say anything "material." It was just terrible. And I was the program chairman. I was also a fairly new president of the biggest bank in the world. So it was doubly embarrassing for me.

Then two days later we came to the panel discussion that I had arranged for Arthur Burns. Gabe Hauge began by introducing the other panelists. Among them were Les Peacock and Tom Storrs, and Gabe then told the audience about the format – that the panelists are going to be talking and then answering questions. We had set aside an hour for the total event.

Well, Gabe made ninety seconds worth of preliminary remarks and then he introduced Arthur Burns. To my astonishment, Arthur spoke for fifty-five minutes. And when he was done, he got a standing ovation. When Arthur was through, Gabe thanked him [laughs], and he thanked the panel members -- who had not even opened their mouths! – for their exquisite and probing questions [laughs] that stimulated such a fine discussion.

LaBerge: What did Arthur Burns speak about in his fifty-five minutes?

Clausen: He spoke about the economy and his concerns that it was not strong, that he didn't want to see rates raised. It had only been about 10 days earlier that he had intervened with Al Britten and gotten him to rescind the Bankers Trust rate hike.

[Reference: End of Tape 32, Side A. Begin Tape 32, Side B]

LaBerge: Going back a bit to your time on the Federal Reserve Advisory Council. Did you find that worthwhile?

Clausen: I thought that experience was really terrific. Some of the members were from small banks, but I didn't look down my nose at small banks. I was the youngest one there and conceivably one of the youngest from a managerial standpoint, but I had a bigger bank to manage than anybody else on the team. And I met some outstanding people. I remember John Meyer, who was the chairman of Morgan Guaranty. I thought John was probably the smartest, the most knowledgeable commercial banker I'd known. I truly admire him. I've talked about the "corporate man." Well, John was really a corporate man. He made so many personal sacrifices. He spent all of his time on bank business. Rumor had it that he took no vacations, he was so devoted to banking work. But as much as I admired his knowledge, I made a personal resolution that that would never happen to me. I was young in my career and I decided that I wasn't going to sacrifice family for success in the business world. I'm happy to say I'm still happily married. I've found a wife who has helped me make the sacrifices, and we still remain very close to this day.

LaBerge: Do you have any other observations on how politics affects banking?

Clausen: Well, that's a broad subject. For example, the insurance companies don't want the commercial banks to get in on the insurance business in any way, and the insurance lobby is a very powerful lobby. It is more cohesive than the banking lobby. And that leads to an important point – not so much about how politics affects banking, but how banks affect politics. And the point is that banks don't affect politics nearly as much as you might think because different kinds of banks are rarely concentrated around one united position. The Reserve City Bankers have one view, but there are country bankers who have a different view. Branch banks look at things differently than single unit banks. So it's really hard for commercial banks to mount a cohesive and forceful political voice. Our competitors pick us off.

We talked about this just last weekend at our BankAmerica Corporation retreat. We no longer think of our competition as banks. For example, the biggest financial entity in the United States is not Chase, it's not Citicorp, and it's not BankAmerica Corporation. The largest financial institution in the country now is General Electric. General Motors is huge too, as well as dynamic. But they're not regulated as much as we are – or we're

overregulated. The smart strategy today is, if you're going to get into the financial services business, don't call yourself a bank!

LaBerge: How do taxes affect bank policy?

Clausen: We keep our eye on taxes, but it used to affect us more so than now. With our liquidity and our investment portfolio we can invest in tax-exempts when it suits our purpose. At one point some years ago, we fed billions of dollars of surplus funds into the Fed funds system. But we only made a very small markup on it and it chewed up a lot of our capital. Today we're not doing that, and we offset some of that excess by investing it in tax-exempts. Today we have very little tax-exempt income on our balance sheet. Therefore our tax rate is higher – around 42 percent while some of the competition's tax rates are down as low as 36 or 37 percent, because they have more tax-exempts.

LaBerge: What about environmental concerns? How do those affect your policies?

Clausen: There is the larger "environment" in which we operate -- the hiring and promotion of women and minorities, for example -- and we are concerned with all aspects of that. As to the physical environment, I think we're a leader in tackling issues in that area. When I first became CEO, our Social Policy and Public Policy Committees took hard looks at how we could help on environmental issues. We were one of the first companies to put a recycling program in place and staff it. We experimented with methanol cars in our auto fleet. We started a solar loan program to help jumpstart that industry and the public's adoption of solar energy products. When Dick Rosenberg was CEO, we appointed a senior vice president, Rich Morrison, to head the bank's environmental programs. Rich had grown up in the bank as a lender and senior manager and he cared deeply about the environment. We gave him a small staff and asked him to devote 100 percent of his time to making sure that Bank of America and its employees conduct their activities with attention to how they impact the environment. This covered everything from using biodegradable soap to adding better insulation in our buildings to installing new lighting controls to reduce energy consumption. We're out in the forefront in the way we deal with the environment.

LaBerge: I notice that when a bank statement comes, the statement is on recycled material. That must be part of the program too.

Clausen: Yes, that's a huge effort. Most of our bank statements, envelopes, stationery, and even our annual report for several years have been made

out of paper that has been 100 percent recycled. So we're hugely involved with that effort. We've also worked to encourage other organizations to join us. The city of San Francisco has a group of corporations that are involved with recycling, and Bank of America plays a leadership role in it. We think it's good for us to do that.

[Reference: Tape 6, side B.]

The San Francisco Clearing House Association

Let me tell you a little anecdote that ought to be in here somewhere. When I became the CEO of BankAmerica Corporation and Bank of America in 1970, there were eight banks in California that had assets of $1 billion or more, Bank of America being the biggest. Banks in Northern California had formed a group called the San Francisco Clearing House Association, and I believe it had a counterpart in Southern California. It was a useful organization because when people were raising money, say it was support for the opera or Mills College or whatever, they'd go to the first bank and get as big a contribution as they could. Then they'd go to bank two and say, "Well, bank one gave $50,000, and you're twice as big, so you ought to give $100,000." To counter that, the San Francisco Clearing House Association met together and said, "Well, what's on the horizon? Mills is going to have a capital campaign." Or "The Los Angeles Symphony is going to have a campaign." Then we'd kind of agree among ourselves what we would give, so that they couldn't one-off any one of us. If you came in to me and wanted money for some worthy cause, I could say, "Well, I'm a member of the Clearing House Association. We'll meet and we'll tell you what we'll do as a group." That way, the fundraiser couldn't pressure me by telling me what Wells was doing and what Security Pacific was doing. I could turn a deaf ear on it.

Parenthetically, after I got to know what this group did, I told Emmett Solomon, the CEO of Crocker Bank, "I'm admitted to practice here in California, and this strikes me as illegal. It may be a violation of the Sherman Act."

LaBerge: Price fixing, sort of?

Clausen: A kissing cousin of price fixing. Emmett told me, "No, no, it's all right. We've checked that out." I still think it was a form of conspiracy and it was illegal. I got Dick Cooley [Wells Fargo] to join two meetings later and we did away with this thereafter.

General Draper Asks to Increase Contribution to UNFPA

But one day, General William Draper came to see me. He was the father of Bill Draper, who became the administrator of the United Nations Development Programme. General Draper had been an important figure on the world stage and he was then working with UNFPA, the United Nations Fund for Population Activities. He was out raising money for the Fund.

General Draper said to me, “You don't know me, Mr. Clausen, but I just want to tell you a few things. You're a young CEO of just a few months now of the biggest bank in the world. It’s a huge bank that makes a big impact. One of the real global issues is controlling population growth. Our Fund helps with that, and it needs support. It's in the Bank of America's interest, because you are an international bank. I know your predecessor, Rudy Peterson, very well, and he's made you an international bank. Would you do me a favor? I notice in this state you have what’s called the Clearing House Associations made up of the eight largest banks. Would you carry our cause to the next meeting of the Clearing House Association and support us?”

I said, “Sure. It just so happens that my wife and I have long been supportive of the kind of work you’re doing. We haven’t thought about these issues as deeply as you have, General, but we are supportive and we make small contributions as we can in our budget.”

The general told me, “I'm also going to talk to Emmett Solomon at Crocker Bank.” So knowing that, I called Emmett before the next meeting of the Clearing House. It turned out that, as a group, we had been giving the United Nations Fund for Population Activities something like $10,000. So we raised that up to $20,000.

[Reference: End tape 6, side B. Begin tape 7, side A]

Then the Association secretary wrote to General Draper and said, “Dear General, we're pleased to advise you that the Clearing House Association has met, and that we have increased our contribution for this coming year. We have doubled it to $20,000.”

A week later, I got a copy of a letter from General Draper back to the secretary. The letter thanked the secretary profusely and said to be sure all the members of the Clearing House know how much he appreciated the

contribution, that this is a serious issue and not enough people are aware of it, et cetera. Yours truly, General Draper.

My copy said, “P.S. Mr. Clausen, I want to personally thank you with great gratitude for intervening on behalf of UNFPA. That’s just tremendous. Thank you so much. But I am compelled to add that a 100% increase of small, is still very tiny indeed.”

I thought that was just classic.

Keeping Up with the Times

LaBerge: You've kept up with the times -- the faxes and all of that.

Clausen: I have to work very hard on change, because the older you get, the deeper the rut becomes. Your feet get locked in the cement. I've always tried to resist that. In fact, I have a saying on my desk, “The only constant is change.”

I mentioned that change was the theme of a management conference. Bank of America used to have management conferences each and every year. Then every five years, we'd bring in managers from all of our overseas branches. That was an expense. But each year we’d have two conferences – one in the north and one in the south. We might start in Los Angeles and then a week later, have the second one in San Francisco, or vice versa. We were very mindful of rotating that back and forth.

These conferences were really sales meetings – meetings to inspire and motivate and to put forth things to think about. I can remember we once had Bill Buckley and Daniel Patrick Moynihan on the same stage debating views about the world. We engaged them to do that in both the north and the south. In the first one, Buckley just creamed Moynihan. It wasn't an act; they had different philosophic views. A week later, Moynihan just creamed Buckley. So it was a standoff. I knew that because those of us in more senior management positions would go to both conferences. Rudy had to go to both, and so did the members of the Managing Committee and some other senior officers having statewide responsibilities. Having senior management at both these sessions was intended to keep up the morale of the troops.

But in these meetings we also learned a lot about the business goals for the next year. I can remember one of the first management conferences I went to. I learned that our goal for the coming year was to increase our overall

loans by, say $600 million. We spill that much around the water cooler today. But in those days, that was a big number. And of that $600 million, we wanted to have $200 million in real estate loans, $250 million in timeplan loans, and $150 million in commercial loans.

So then I'd go back to my branch in West Glendale and think -- what am I to do with this information? We didn't have an accounting system in the bank back then that would give our branch feedback and credit for the loans we generated that contributed to the bank's overall goals. This used to make me so angry. I'd think, how can they be so dumb as not to develop that?

Clausen: The manager of my branch was one of my closest friends. He's now passed on, but I owe him a lot.

LaBerge: Who was that?

Clausen: George Banse. His wife's name was Loni. He was a Presbyterian elder as I was. When we signed the papers to adopt our first son, we were having dinner on Saturday night when we got a call saying, "Congratulations, you're the parents of a baby boy, born tonight. You can pick him up on Monday morning at 9 am." Well, we still needed to buy some things for the baby, but in those days, the stores weren't open on Sunday.

LaBerge: Oh, I remember that.

Clausen: He was born Saturday, February 25, 1956, and since we were to pick him up on Monday morning, we went to George and Loni Banse for help. They gave us a crib, a stroller, some blankets, a bottle or two, and basic supplies. They were those kinds of friends. They lived in San Clemente after George retired, and when he died, it was just Peggy and I, Loni and their two children, their daughter-in-law, and a longtime friend of theirs who went out in a boat and dropped his ashes. The Banses were very close as a couple, and we were close to them. We used to play bridge together. George was my closest friend.

The Origins of Transfer Pricing at Bank of America

LaBerge: But you felt that the bank's accounting didn't make the most of how branches like West Glendale could contribute?

Clausen: West Glendale had fifteen or sixteen employees. And when I got back from the conference we had a staff meeting. I'd report that we had a good

year last year and that we had all been congratulated. Then I'd tell them that the bank's goal for next year was to get, say, $200 million of real estate loans. Now we had maybe $3 million in our branch. But now comes the problem -- how do you translate $200 million down to a little bitty branch? The reality back then was, you can't. But that just didn't make sense. I didn't forget that. And when I ran these conferences, I had our administration people give this kind of information to branch managers in terms that could be taken back to the individual units and made actionable.

I can remember walking around in branches when I first became a CEO, and saying, "Well, Mr. branch manager, how's your branch doing?" He might answer, "Things are just great. Our timeplan loans grew by 3 percent. Our real estate loans grew. Et cetera, et cetera. And I held the staff constant." But then I'd ask, "How much money are you making?" He'd reply, "I beg your pardon?" You see, the manager of a branch, even a big one like San Jose, really didn't know how much money his branch was making.

So I introduced a profit accounting system we called the building-block profit system or transfer pricing. I think that if I were an historian looking back on the contributions I had made in Bank of America, and I have made some -- I say that as modestly as I can – among the largest was on the profit side of the business. You've read some of the stuff that has been written about me where they talk about my focus on profits as a negative, and they say that I did things *just* for profit. I didn't, but profits are critical to a business's future. No vision of a company's future can be achieved without profits, and when I retired the first time, the bank was the most profitable privately-owned bank in the world. Yes, there were some government banks and commercial banks owned by governments that were more profitable, but none privately owned. Surprisingly, I took criticism for that because some people thought I had done it by cutting things too carefully. That's a euphemism for "cooking the books."

But we had auditors and government regulatory authorities who examined everything we did. We operated according to generally accepted accounting principles. And we were clean.

Bringing the Profit Accounting System to Life

LaBerge: If no profit accounting system existed, it must not have been easy to create. What are some of the obstacles and issues in bringing that to life?

Clausen: It's complicated because no function within the bank stands on its own; it rubs up against four or five or ten or twenty other functions. So when there's a big success, everybody wants to take credit and take a little bit of the bottom-line credit to his or her unit, which is reasonable and understandable. But there has to be a discipline as to how you divide up the pie. If too much of the credit goes to you, and not enough to the six or seven other functions, including mine, that are involved in this, then I won't want to work very hard because there's not enough reward for me. And I would rather work on one product that is less complicated and has the potential to deliver more profit to my bottom line so my bonus will be bigger. This is the art or the science of management. You want to maximize the performance of each of the units, given that each of the units is not a freestanding entity unto itself, and allocate the profit fairly to those units via transfer pricing, which is governed by the Money and Loan Policy Committee. Bank of America has a deposit gathering system with our branches where our customers make their deposits, and if we want the branches to work and get deposits, then we can provide extra incentives for our people, our salesmen in the branches to go after, say demand deposits, business accounts, et cetera, as contrasted with savings accounts or certificates of deposit or other kinds of deposits. We can do that via transfer pricing. In the last hundred years, the management of enterprises and businesses has become highly sophisticated and there have been mountains of books written on transfer pricing.

Before we took on this problem, Bank of America couldn't even tell what the total profit of a relationship was around the world. We can today, but we couldn't yesterday; we had to guess at it. Doing this right is very complicated. You have to assign credit properly for that profit. You have to determine who actually made the profit; you have to reward fairly those that worked on the account. So tons of books have been written on transfer pricing and how you allocate profit. When a big blob of profit comes to BankAmerica Corporation, how much goes to Leasing? How much goes to Corporate Finance? How much goes to the branches? Where in the branches? Who do we congratulate? If it's a success, *everybody* wants to take claim. If it's a dog and a turkey [laughs], you can't find anybody --

LaBerge: -- who worked on it! [laughs] Did you invent transfer pricing?

Clausen: Transfer pricing has been used for the last hundred years.

LaBerge: But did you refine it in the bank? Is that why today the bank *can* figure out where the profit comes from?

Clausen: I put the steam behind it, but it's forever being refined. In the next two hundred years there will be an even bigger pile of books written on transfer pricing. The goal is infinity. You might find that your system for transfer pricing works fine today, say in an expanding economy or when a corporation is expanding its activities. But in a contracting economy or when the company is contracting its business, a different approach to transfer pricing may be needed. So transfer pricing systems are constantly being revamped and refined.

I came back nine years ago and I would say the bank has changed its philosophies and theories dozens of times. The board of directors and the senior management of BankAmerica Corporation and Bank of America NT&SA just met this past weekend for two and a half days up in the wine country to focus on the issues and the challenges facing the bank. And the board once again discussed a new system for looking at and gauging the performance of our various functions within the bank.

A new approach that holds a lot of promise is Americon, designed by a consulting firm. It's a philosophical way to think of one's business, which is, in a word, TERRIFIC -- and please spell that in capital letters [laughter]. We have put two big units into that approach: EMEA [Europe, Middle East & Africa Division] is getting into it now, and the one that's already finished is Manufactured Housing. Over the next fifteen or eighteen months, Manufactured Housing can produce another $200 million before taxes. Additional profit can be generated by rethinking what's important and what isn't. And that approach is a kissing cousin to transfer pricing.

The Value of Committees in the Bank

The collegial system of committees in Bank of America is an approach that we all fell in love with. Some theoreticians and economists say that the committee is a place to avoid making decisions yourself, to duck the issues, and therefore escape being tagged with losers. They argue that the quality of the decisions made in committees is less. To the contrary, I would say that if committees are there for the purpose of getting as much input as you possibly can about difficult and complex issues and to listen to the reservations that each of the different participants has, then it improves the quality of the judgments surrounding those difficult issues. There are no perfect answers in this imperfect world. So the process is to find the least imperfect solution to very difficult and complex issues.

In an organization, leaders just cannot and should not retreat into isolation and contemplate his or her navel and only do independent, freestanding thinking. You can't gain the widest view by only having a one-way conversation with yourself, because there's no one person who could possibly know it all. At Bank of America it is a great help to have different professional and experienced bankers sitting at the table to determine whether the bank should float another bond issue or whether we should emphasize or deemphasize credit card totals at the moment because the markets are rife with people borrowing too much on their credit card and we have let's say $8 billion or $9 billion outstanding on credit cards in our portfolio. All of those analyses are best made with experienced people from different points of view addressing the same challenge and then sharing their analysis, their reservations, and their views with each other. So then you can reach a consensus that is more broadly based.

Corporate Codes

LaBerge: Earlier we started talking about your ethical background. And I noticed too, when I went to the archives, I was able to look at the scrapbook that they made for you when you retired. They have one of the first agreements you signed when you were a new employee, and it had a lot of ethical things like, "I promise to not divulge client information…"

Clausen: Kind of like a code of conduct?

LaBerge: Yes, a code of conduct. And I was really impressed with that. I'm sure it must make an impression on the people who sign that.

Clausen: I don't recall that particular document.

LaBerge: It was over 40 years ago. But it reflects the kind of the values you've been talking about.

Clausen: It turned out that there was good synergy between my own values and the values imbued in Bank of America by its founder, A.P. Giannini. Nevertheless, when I became president in January of 1970, societal views of business and institutions were quite negative, and I believed it was important to take steps to address that. I told you earlier that I set up a task force on internal communications. Climbing up the ladder I had observed things that I thought were wrong. There was too much of the "Now hear this" bullhorn approach aimed down at the fat part of the pyramid. Only occasionally did you get some feedback from the braver and more courageous employees. And there was very little stepping over the

invisible equators separating the various functions of the bank. The National Division didn't want to talk to Corporate Finance because the National Division called on the big corporations. (The knife-and-fork guys, I call them.) They saw themselves in competition with Corporate Finance. But the arena in which we could really do some good for the big corporations and the bank was in handling their credit needs. That's when banks were providing a lot more of the loans in the United States than they are now. Today, corporations bank each other. General Motors has got extra money, so they'll buy General Electric's commercial paper. When General Electric needs money, they don't go to a bank; they get an underwriter of commercial paper. Bank of America is very big and very good in that business itself. But in the early days of my presidency, we needed to strengthen communications first within the bank, and then with the world outside.

The Voluntary Disclosure Code

LaBerge: I know you created both a groundbreaking Voluntary Disclosure Code and a Corporate Code of Conduct.

Clausen: Yes. We completed the Voluntary Disclosure Code in 1976 and it was a first for American business. It gained a lot of press coverage. The role of business in society was being questioned in major ways and I felt we should tackle the problem of business credibility head-on. I gave a speech to the financial executive association here in the Bay Area with the message, “There are some horses we ought to let out of the barn.” That is, there was a lot of information about our businesses that we were keeping confidential, but unnecessarily. I felt that if we took a deep look at it, we’d find a lot of information we could make available to the public that would reduce their suspicions of business and begin to rebuild trust. I put together a high-powered, very excellent task force to look at this. They were chartered to look at the rationale for keeping or releasing information to each of our constituencies. What should we disclose to our employees? Job grades? Simple. Salary increase patterns? Yes. But if someone outside asks us, “What kind of an employee was John Jones?” We will only give out basic information like “name, rank, and serial number.” If they ask, “Well, was he fired?” We cannot say, “Yes, he was fired,” because Jones can then sue. So we made a great effort to be clear about what we will and will not disclose to, and about, our employees. And so on for each group. What should we disclose to our shareholders? What should we disclose to our various publics? And could we articulate what we would disclose and what we wouldn’t, and why?

We're not going to tell our publics that a privately owned foundation borrowed say, $900 million to buy Chrysler Corporation stock. We were clear that we'd not disclose the private business of our customers. But we were clear also about what we *would* disclose, and some of it had not been available before. As I said about the planning process, the process itself can be more important than the end result. It was that way here. We were able to put thought to all these different kinds of information and make rational decisions as to what to disclose or not disclose, and then explain why to the public. The result was that we opened a window into the bank that let the world outside see we were decent people trying to do a good job.

We got a lot of attention in America and around the world for that initiative. BankAmerica Corporation was in the vanguard, in the lead, in determining and thinking of things to disclose. One result was that the Business Roundtable asked me to take responsibility for getting other corporations to do the same thing as Bank of America.

Corporate Code of Conduct

Clausen: We created a separate Corporate Code of Conduct to guide personal actions and we gave it to every employee. We wanted to make explicit some of the things that we thought were implicit, but not written down so that every employee could be aware of them. This was especially important because with our growth we now had employees coming from different cultures. In those days, we had developed a large international employee pool. We're less international today, but the same principles hold. Although some of those things are common sense, when you have 90,000 employees and constant turnover, a lot of those employees can't talk to officers and they don’t know the system and the rules. So we set out to create a Code based on a simple idea -- let's tell everybody the rules. Post them on the church door. Then let’s play by those rules.

Given a Lot of Thought to Ethics

LaBerge: We’ve talked about ethical issues, and I'd like to go deeper into your philosophy. It's obvious you've thought a lot about --

Clausen: Ethics.

LaBerge: Yes, ethics, even before you became CEO. Where did all that come from? How did it form up into your --

Clausen: Philosophy.

LaBerge: Okay. How about your religious background?

Clausen: Well, I'm a Presbyterian.

LaBerge: You've mentioned that several times, and it seems to be an important part of your life.

Clausen: It has been, and it still is. I'm not as active a churchgoer currently as I used to be in my early years. Peggy and I have talked about it, and yes, we should start going more regularly. I'm not here very many Sundays, but we ought to have a precept that, "Every Sunday we go to church." I am for that intellectually, but also I'm a night person and I like to sleep in on weekends. That's when I recharge my batteries. But whether I'm able to go to church or not, being a Presbyterian is an important part of my life.

LaBerge: I think that more than most CEOs, your speeches have a great deal to do with ethics.

Clausen: I've given a number of speeches that I am proud of. Two were at the Presbyterian Church in Burlingame. One was about four or five years ago and the other was when I was CEO back in the early seventies. I remember also sitting on a panel on ethics and business responsibility at the Haas Business School with Ken Derr of Chevron and Sam Ginn of Pacific Telesis. He's now with Airtouch, a spinoff. I remember that that was in 1989, because you couldn't drive over the Bay Bridge as it was being patched after the earthquake. So I took BART. Jim, the bank's driver picked me up in Oakland in a huge, obnoxious, long black limousine that Bank of America had bought and kept over there while the bridge was being fixed. This limo was about eight blocks long. Now ethics is central to credibility. And credibility is critical to leadership. Even the car you drive sends a message about your values and that affects your credibility. And just at this time Bank of America had a terrible reputation because we hadn't dug ourselves out of the hole yet. This huge car evoked fury in people just to see it. Jim drove me up to the campus and the car was so big he couldn't drive it in to Barrows Hall, so I got out and walked in. But as I got out, I heard several students…

LaBerge: "Who is that?"

Clausen: Yes, "Who the hell does he think he is?" I came back and told that around, and I ordered the car fleet people to get rid of it. I never saw that car again.

I didn't fire the bank person who bought it for us, but that's not the kind of automobile that Bank of America should have. We're not that kind of a bank. That's a small thing, but small things can undermine your credibility.

So yes, I have thought about ethics. I've concluded that integrity is the most important thing for anyone, CEO or not, to have. A leader has to be honest and trustworthy, has to square the corner -- two and two always equal four, never more, never less. Corners have to be square and right, not 89 degrees but always 90 degrees. The CEO's word has to be lived up to. If you promise something, you have to do it.

LaBerge: Did you learn any lessons on ethics and responsibility from your predecessors?

Clausen: I came to see that Bank of America is a class organization. An organization can be classier than the CEO, but it's always better if the CEO is classier than the organization because he's so visible for people to see that he can pull the organization up. I learned from Rudy to never lend your name to a cause or an organization unless you can actively participate. Poor participation reflects badly on you and the organization. Good participation wins friends. That's the advice that some of us who are close to Dave Coulter are giving him. We're telling him from experience not to say "Yes" to all the invitations he's going to get. There are going to be a lot of them, and since he's only forty-eight years old, "Don't fill all the spots on your dance card, because something more important is going to come down the line, and you've got to keep open for that. And don't worry about it. If you want to fill your dance card, just let a few people know, and they'll come roaring in, because Bank of America is class."

Ethics means a lot. I've seen all sides of it. As I told you, I've had to ask for the resignation of smart young officers who should have known better, but who used inside information not available to the public to make investments. If you're an officer of the bank, you have to be trustworthy. People need to be able to tell you things that they're planning for next year or the year after without you saying, "Excuse me while I call my broker and buy the stock." That's an ethics sin.

Qualities of a Good Senior Manager and CEO

LeBerge: What qualities do you think make a good senior manager and CEO in an organization like Bank of America?

Clausen: Competency in your business is close to bedrock. Commitment to your goals – passion, as people call it now – deflects distractions. And an ability to engage others in achieving your goals is fundamental to being a leader of people. And then one has to be skilled in operationalizing one's vision or goal; that is, mobilizing people and resources effectively so they can achieve the goal. I liked very much the psychology aspect of managing, and trying to figure out why somebody's not putting out the work required, why he's hurting his career. And then I find that he's got a sick mother-in-law, or that he's got an ulcer. Being a good listener is essential. There's a wise saying, "If you think communications is all talk, you haven't been listening." So listening to people and not hurting them with what they tell you go a long way to helping them trust you. Early in the 1970s, one of our senior officers, Scudder Mersman, told me that he'd had cancer, but it was in remission. It was fine now and he didn't want me to react; he just wanted me to know. He said, "I just want to warn you, too, because the impact of this kind of cancer, it makes your mind a lot sharper!" [laughter] "So I hope you don't mind if I get brighter, and you probably think I can't get brighter, but I'm going to warn you, I am going to get brighter." I honored his confidence and did nothing. Ultimately, the cancer came back and he died of it. My wife plays bridge with his widow and has for the last twenty-five years.

I've always felt that people believed they could tell me stuff and confide in me, knowing that it absolutely stops there. I told you why I didn't bring my work home.

LaBerge: Yes.

Clausen: Because I used to hear about what was going on at the bank from my wife, who got it from a neighbor three doors up, and I said I'm never going to put Peggy in that position. I didn't try to exclude her, but when I had to fire somebody, I would never tell her, because it could get out. Peggy could tell I was troubled, but these are very, very private things, and I've always respected the right of people to privacy.

A CEO Needs a Good Head of Personnel

I think that when you get down to the managerial side of these things, a good CEO has got to get himself a good head of Personnel and make himself fully available to that person. George Skoglund was such a man and he was on the bank's Managing Committee,

LaBerge: I've heard you say before that you thought George Skoglund was the very best.

Clausen: The very best person in my book, even though he was a Swede. I think he was the best head of Personnel in my forty-plus year experience. He was terrific.

LaBerge: What do you think makes a good head of Personnel?

Clausen: He's fair, accessible, friendly, candid, discreet, diplomatic, firm, knows the people, knows the business, and is accessible.

The CEO's Need for Someone to Talk to

People, you know, have lots of problems. They'll only show what they want to show. I think it's a truism that if you're the CEO and you've got a problem, you need someone to go to. Being the CEO of a bank or any big business is a very lonesome job in the sense that there are not many people you can talk to. You can't talk with your secretary -- I'm not demeaning secretaries -- because you've got to be confidential.

A parenthetical comment. In the person of Helen Higgins, I have an absolutely confidential secretary, and I trust her with everything. She knows everything, both here and at the World Bank. When Bill Miller, then the Secretary of the Treasury, and President Jimmy Carter wanted to get me into the World Bank, Miller told me, "You need your own confidential secretary. The secretary there now may not be a confidential secretary. After ten years being secretary to Bob McNamara, her allegiance might be to McNamara, even though he's gone. So you've got to have your own." I asked, "Is it all right then that I bring a secretary in from the outside?" Naturally I was thinking of Helen. I don't know what I would have done if they had said, "No, you can't." I first patched that up with McNamara. And then I brought in my own.

Employees, even CEOs, need someone to talk to. Say you've got a divorce and one of your kids has gone off into drug addiction or whatever. And you need to be able to talk to somebody. For a CEO, there's only the head of Personnel or a former CEO. You can't talk to your wife. But everybody could talk to George Skoglund and confide in him, even the CEO. I don't want to repeat myself, but when I became CEO, Rudy had Personnel reporting to Sam Stewart. Did I tell you that?

LaBerge: Yes, you did. But I don't remember who was heading it.

Clausen: Frank Young --

LaBerge: Yes, that sounds right --

Clausen: Frank was under Rudy. He might have reported to Sam Stewart. But Frank retired about when Rudy retired. Sam Stewart was Senior Administrative Officer for the bank and Personnel reported to him on the organizational chart. But people sensitivity was not one of Sam Stewart's strong points.

I felt very strongly that nothing was more important for a CEO to focus on than people and putting them in the right slots. You put good golfers in the golf match and good tennis players in the tennis match, and don't get them mixed up. There's a tendency in large organizations to think, “He's a wonderful golfer, so let’s put him in the tennis match.” And when he doesn’t do well over there, they get rid of him. No, put him back in the golf match. That's a simple little thing, yet it's not so simple.

And I felt Sam did not have the right approach. He had more experience, he was older, and he was deeply hurt that he was not tapped on the shoulder to become CEO and I was forty-six. Sam and I got along fine, but he unloaded about it on Peggy one night at a social event. I never really talked to Sam about this and from my reading he did not resent me nor did he ever think I was not qualified. But he was deeply hurt that he’d worked at the bank all these years, and now he gets to be sixty-one, and a young man steps in, and it's over. And if you think that doesn't hurt, you're wrong. It does hurt. That's what, in essence, he told Peggy.

Success Depends on Right Decisions about People

I had to get Personnel out from under Sam and into my pocket, because I thought at the time, and still do, that there are a lot of actions a CEO has to take whose success depends on the right people doing them. And a CEO has to have a very strong Personnel officer. But the ones that Sam was picking were all trusties for the Legal and Trust departments. As I recall the lineage it was Frank Rizzo, Frank Young, Bill Breen, and Win Bailey. Later I chose Joe Carrera, then George Skoglund. Verone Gibb came later -- that's probably a name that you haven’t heard.

LaBerge: No, I haven't.

Clausen: That appointment happened after I left. And then I want to say came Bob Beck, hired from IBM by Sam Armacost and Lee Prussia.

LaBerge: So George Skoglund was your Personnel manager.

Clausen: Yes. And I made the head of Personnel a member of the Managing Committee. George was very competent.

Some CEOs can't really open up, either for personal reasons or because they have no one to talk to in confidence. So they contemplate their own navel. Whereas I strongly believe that a collegial approach to finding solutions to very complex issues will give you better judgments through discussion than doing it, say, the McNamara style that I told you about earlier. It's a lot better to get ten of us around a table and put the issue out there. We all participate and we all hear the reservations -- you hear me and the two of us hear Helen and the three of us hear Rudy – and we discuss it together openly and candidly. Then the results are better. There are no perfect solutions to complex issues, which means that you take the least imperfect solution to go forward. This is my approach. I learned it in part from Rudy. To make it work, the leader needs to put the idea in the air that we're going to forget our own personal ambitions in the process and do what's best for the institution. Sometimes it takes a strong leader to say, "The no's have it. Forget that plan. It may be good for you personally, but we've got to think of the entire corporation, the shareholders and our constituencies." That's called the collegial approach.

Instituted Collegial Approach at the World Bank

So I instituted this Bank of America system in the World Bank. Instead of one on one, I said to my colleagues, "I'm not a very good left-hander" – that is, I don't make decisions the way Bob McNamara did. "But," I said, "if we all hear the same thing, and then afterwards ask, 'Are we agreed?' we'll make better decisions." And that's the approach we took. The discussion would be, "Well, if we do this first and that second and then follow up with this and be very careful here, then we can go forward." All qualifications. I'd say, "Well, that's okay over here, but how do we get to there? Maybe we've got to do three or four things differently." I think the quality of the judgments was much improved from a managerial standpoint.

But you can't usually talk in a collegial way when it comes to who you should promote. If you lose one of your senior officers, or one of the top five, should so-and-so be invited onto the Managing Committee or not? You have to be extremely cautious about approaching personnel decisions in a collegial way. And you can avoid that altogether if you have a strong head of Personnel. That was George Skoglund in my book.

On Joe Carrera

Joe Carrera was the first head of Personnel who reported directly to me, and he was an unusual person. Carrera was rough-hewn and could be a bit vulgar at times. His language could be off-color. But he was one of the few males who could be off-color in a mixed crowd, and the crowd wouldn't be down on him. People like that are rare, because they have human qualities that people like. Carrera was one of those.

One morning, I got a call from one of our good customers whom I knew. Carrera lived in Saratoga and he had given a speech in San Jose the night before. The customer said he thought I should know that one of our senior officers, Joe Carrera, gave a public speech last night, and he was very crude and off-color. He did Bank of America no good at all and made Bank of America look bad.

I was angry. At the time, Joe Carrera was a senior officer and a member of the Managing Committee, so he was in the top eight or ten officers. So I called Joe in and said, “Joe, I understand that you were giving a speech last night down in San Jose.” He said, “Yes.” I said, “How did it go?” He looked me in the eye and said, “I know what you're going to say, Tom, and I promise you, it will never happen again.” His response was so sincere, I didn’t even feel the need to get into the details. I said, “Joe, that's exactly what I felt compelled to talk to you about. I accept your promise and your word.” And he lived up to his word. Sometime later we made him a vice chairman of the board, along with Art Toupin.

In those days, few people could swear in mixed company and get away with it. That may be a male perspective, but I believe it to be true. I couldn’t. I couldn’t even do it within a male group. I vent my spleen privately. Once in awhile Helen gets the brunt of that, as does my family. You have to let it out now and then, particularly in a pressure job. But I’ve been very, very blessed with an understanding wife and an understanding secretary too. Helen has been my secretary for twenty-seven and a half years, and before that she was secretary to Rudy for his six-plus years as CEO.

Al Rice as Possible Successor

In the second half of the seventies, I had in mind that Al Rice was the guy who was going to be able to carry forward the bank for the future. Rice was attractive, personable, charismatic, bright, smart, and had been around the bank for quite a long while. Early on, he was a C-trainee, a college

graduate from Stanford, and then he'd left to go into business. We brought him back to the bank in the early sixties. I came up north in 1963, and he might have come back to the bank in 1964.

LaBerge: Did you hire him?

Clausen: No, he was hired by his personal friend, Everett Iversen, who was number two on the General Finance Committee. I'd met Al once or twice before I came up north, but I didn't know him all that well. But we became close friends, and I had high regard for him. At the time, I was thinking about the future of the bank. Although I had only been CEO since January 1 of 1970, I had in my mind that if I can't show what I've got as a CEO in eight to ten years, there's no way if I'm going to stay in that role for nineteen years until I retire. I always thought that in eight to ten years I would leave. In eight years, I'd be fifty-four and that still would give me time for another career. Besides, if I looked like I was going to stay for nineteen years, some of our ambitious good people would jump ship.

The Challenge of Keeping Good People

I remember talking to Hornsby Wasson, an outside director and former CEO of Pacific Bell, whom I respected. I talked to Bob DiGiorgio, head of the DiGiorgio Corporation, another outside director whose advice I respected. I talked with Ben Branch, who was the CEO of Dow Chemical in Michigan. I wanted to get their views on how do I keep good people? And how do I signal that I'm not going to be here forever without rocking the boat and destroying the stock price?

I got great advice. Hornsby Wasson was probably the one I went to the most. I brought a lot of problems to Hornsby. He was in his sixties and I was in my late forties, so there was quite a gap between our ages, but he was experienced and wonderfully helpful. And I would also go into executive session with the board. We were fortunate to have Bob DiGiorgio as chairman of our Executive Compensation Committee. He also chaired the executive compensation committees at Union Oil, Carter Hawley Hale, his own DiGiorgio Corporation, and one other. Bob knew a lot about it, so he helped introduce an incentive plan for senior officers with goal-setting, performance goals, annual reviews, and all of that. Bob really brought the bonus system into Bank of America. Bonuses these days can get pretty big.

LaBerge: There were none before this?

Stock Options and Restricted Stock

Clausen: None. Rudy had introduced stock options about 1967 or 1968. DiGiorgio was on the compensation committee and helped with that, but I want to say that a guy by the name of Al Sbarboro was then chair of the compensation committee.

LaBerge: Sbarboro?

Clausen: [Spells]. That's an Italian name, of course. He had been a long-time retired Bank of America officer whose top pay in the bank was an amazing $40,000. And having someone who was paid $40,000 be the chair of the compensation committee is another reason why Rudy never made more than $200,000. [laughter] And Clark, I want to say, might have made a high of $150,000. So Rudy rolled over Sbarboro, who was a director. Rudy set age seventy as the age to leave the board, but he grandfathered some people so Fred Ferroggiaro could go on until he was in his late eighties. Rudy modernized the bank in a good many ways, including managerial aspects of it.

Then came restricted stock, where you were given 100 shares of stock with restrictions to tie you to the organization. The stock would vest after five years or ten years or whenever, or when you retired. You could pay the taxes on it at the time it was assigned to you, or you could wait to pay the taxes on it when it vested.

LaBerge: Yes. Did that come in under you or under Mr. Peterson?

Clausen: That I don't know. I think the restricted stock came as an idea from DiGiorgio, I'm inclined to say, but I don't know. I think I introduced the restricted stock and Rudy introduced the stock options for the top officers.

[Reference: End tape 13, side A. Begin tape 13, side B]

We wanted to move stock options to more people and more employees, than originally. So today, I don't know how far down we go; I don't think we give stock options to tellers. But we did have a profit-sharing plan in those days.

LaBerge: So the whole job of placing people in the proper spots in the organization and keeping them there productively is a big challenge…

Clausen: It’s one of the CEO’s most lonely jobs.

LaBerge: Earlier while we were on this subject, I'm pretty sure you told me you made changes in the salary administration, because people didn’t really know what the scale was, and you wanted to let everybody know how it worked. Could you talk about that a little?

Clausen: Well, sure. That happened at the first senior management retreat, I want to say within thirty days after I became the CEO on January 1, 1970. I think it was later that very first month. I felt it was necessary to get the senior officer group together so we could bond and get used to a change and also for me to give a little sermon on what my views and visions were for the bank.

“One thing I would like to clear up,” I said, “is the matter of grades. They're secret now, but I want to open them up. I'll give you an example: here I am, I think I'm a grade fifteen, and I get my increases based off the chart on a grade twelve. And I say, `The dirty Bank of America, they're cheating on the system.' But I think I'm a grade fifteen, when in reality I’m only a grade twelve. But no one has told me. And if you tell a person the grade that they're in, then you save a lot of anxiety and blood spilled when they get a lower raise. So it would clear the air if we would be candid and tell our employees what grade they're in. The problems are coming in the upper grades – the officer grades. Tellers get teller pay.”

And there was only one dissent, and that was from the person who had responsibility for Personnel, and [shouldn't have] under Sam Stewart. As I said, I had really made my mind up early on that I had to take Personnel away from Sam. There's nothing more important a CEO can do than deal well with people issues. I think that's the story that you're referring to.

LaBerge: Yes.

Clausen: And thereafter, they agreed. We discussed pros and cons, we discussed the program and listened to each other, and the quality of the judgments was improved. I've been a strong devotee of that, and I learned that from Rudy Peterson.

Pressure of Cronyism on a CEO

LaBerge: In your position as CEO, did you ever face the pressure of doing something special for your friends?

Clausen: Every CEO faces that. But I've never been a crony player. I'd never put my friends in key places. George Banse was my closest friend, but I never did any special deals for George. Whatever he got, he earned it on his own. When they'd ask me what I thought of George, I'd tell them. But I would never reach down and say, "You really ought to put George Banse in this or that spot." I've never done that. I don't think being a close friend of Tom Clausen hurt anybody's career, but also I'm not sure being a close friend of Tom Clausen *helped* anybody in their career. I felt you've got to earn it on your own.

Mr. Clausen's United Way Planning Experience

LaBerge: We were talking about how you got interested in the disadvantaged, and you were saying you learned planning bottoms-up at the United Way.

Clausen: I've always had an interest in the United Way. When I was at West Glendale branch in Lincoln Heights, I used to ring doorbells for United Way and solicit people to make a contribution. I've always contributed personally. I've always had it charged as a payroll deduction – at first a few bucks, and then later when we had the largesse of the Clausen family, and things became less severe -- I don't want to say more grandiose, but less severe -- then we gave more. We've always supported United Way.

The infamous Bill Arimony got me interested in helping the United Way nationally. Bill Arimony, by the way, is a case where ego got in the way of judgment -- Bill Arimony's -- and he started to abuse the privileges of his office. Here's another situation where the selection process for a CEO ought to be very careful that the leader being chosen has the integrity and the courage to stand on principle, no matter what, and be an exemplar of ethics. Bill Arimony is now in jail, or at least indicted.

But Bill invited me to join the United Way long range planning committee, so I agreed. I remember the name of the first chairman of the long range planning committee -- Jack Hanley, the former CEO of Monsanto.

LaBerge: Oh, from St. Louis?

Clausen: Yes. Jack Hanley was Proctor & Gamble. He was number two or three, I want to say, at Proctor & Gamble, and Monsanto hired Jack to come on as CEO. Jack was outgoing, very articulate, it was easy for him to talk, and he was aggressive in a very acceptable way. There is the aggressive person who is unacceptable and turns everybody off; Jack wasn't that. But his

style of planning as the chairman of the long range planning committee was to do all the planning at the top back at the headquarters in Alexandria, Virginia.

And I, coming out of a big organization, saw the top of Bank of America from the bottom up. And the top didn't pay enough attention to the bottom, I felt, including Rudy. I've always been very supportive of Rudy. If I could say it in a very arrogant way, he was smart enough to realize my talents, and it was evident that he was right. Yes, I am arrogant and I have a big ego. Everyone has an ego. People evidence their ego in different ways. Some are very palatable, and some obnoxious. Those are the extremes.

Jack Hanley had a big ego and he was going to do his planning top-down. He was not a good listener. He knew what he wanted to do, and he went full speed ahead. I was a member of his long range planning committee, and I kept saying, “You know, the Bay Area finds it difficult to follow a plan that is manufactured 3,000 miles away, and they don't even understand the Chesapeake Bay Area, let alone the San Francisco Bay Area.” I said, “Alexandria doesn't know what the hell United Way Bay Area wants to do.”

We were one of the states with major metropolitan communities, of which there are about 200 around the nation. Only six or seven of those 200 United Way communities had a long range planning committee for their own area. So the wisdom of the leaders of the United Way of America was that there ought to be centralized long range planning and we're going to do that in Alexandria, Virginia, the headquarters of the United Way.

And I said, “No. What Alexandria ought to do is be the catalyst, because the San Francisco Bay Area and Detroit and Chicago and Los Angeles, the big communities, the 200, should do their own long range planning. Long range planning will be as different in Los Angeles as it will be in the Bay Area, and far different from that of Detroit. Creating effective plans depends a great deal on the community and the environment and the history -- where you are on the sine wave.”

Now I'm a very nice person, or at least I try to be, but I was more vocal than I usually am, and as a result of that, when Hanley left, the United Way hierarchy wanted me to take responsibility for the long range planning committee. And I did. And may I say I made something out of it.

LaBerge: And you changed the process.

Clausen: Changed the process to community planning. I don't know how many of them there are today, but I would be very surprised if we're not within shouting distance of having all 200 of those United Way communities doing their own long range planning. This was a long time ago. I would say that long range planning on a local level is now locked in concrete, as it should be. You get some lemons, you get some people who don't know what to do in Topeka, Kansas -- I don't mean to pick out Topeka -- or New York City. That could happen anyplace. But the process should be local.

Planners need their ears to the ground at the local level: “Who's going to succeed [as chairman] next year?” “Well, how about the year after?” “Here's somebody who looks very good. Maybe if we give him three or four years, he could be a real leader over the horizon.” That sort of planning. Common sense is what managers are all about. You need common sense for the national level of the long-range planning committee. We should track how programs are working and start focusing on when we can no longer allocate funds to them. You can't suddenly chop a program off from its resources. If something is no longer to be funded, maybe you ought to phase it out. Just like you can't discharge an employee summarily, you've got to lay pipe first. So you can notify a group, “We’ll fund you for three years.” What’s critical is to approach this strategically with a vision of what you can and can’t do. Then you tell your recipients ahead of time. Just don't just give them a hundred thousand dollars, and then suddenly call them up next year and say we're not going to do a hundred thousand again. That's too big an adjustment for communities to react to.

And here in the Bay Area, AIDS is a big thing, and homosexuality, and sharing of needles -- we really have to spend more money and give more grants to those kinds of social problems. If you're in Detroit, perhaps it’s unemployment, or family values or something else. The problems are different in every community and whatever they are, they should be addressed at the local level. That's in process and I'm very proud of that.

I can remember having John Gardner participate. He's now down at Stanford. A wonderful man and a good friend. We had a couple of others -- a former chancellor of Cal Berkeley [Martin Meyerson], who went to Pennsylvania. A great philanthropist from the Kellogg Foundation took part. A very fine man. We had a great committee and we turned this around.

It reminds me of when we were reorganizing the administration of the World Banking Division and we had a lot of strong people in there. In the

first draft of the organization chart, they put staff heavily on the top, and then the workers on the line down below. I took that chart and turned it the other way around. I said, “These are the leaders. The line should drive and staff should serve. Staff should not drive.”

Line and Staff

LaBerge: Could I just ask you about line and staff? I've read a little bit of your thinking before, and I'm not sure of the difference between line and staff. Could you just define that, so someone else who's reading this, a newcomer --

Clausen: Sure. In general, line people are the ones who interface directly with the customer. Line people build relationships with customers. They sell bank products. They’re the ones out there “on the line” so to speak dealing with our customers. Line people should drive what we do, and staff people should support the line. In a modern corporation, I suppose in the broadest definition you could extend the idea of “line” to those who deal directly with the bank’s other important constituent groups too -- investor relations officers who deal with shareholders; community relations officers who work in communities; personnel relations specialists who handle employee problems, and so on. But traditionally “line” people are those who deal with customer relationships and directly affect profits. The make bottom-line decisions. Staff does not.

Line and Staff Units

LaBerge: Were you on the “line” when you started?

Clausen: I was a worker. I was in the beehive with the minions. And although there are people in branches who don’t interface with customers, the branch itself is definitely considered a “line” unit, because its actions either strengthen or weaken our customer relationships and increase or decrease our sales and profits.

LaBerge: So employees who are “line” might be…

Clausen: Branch managers. Tellers. New Accounts officers. Client representatives. All people who deal with customers and affect profits. On the staff side are units like Legal Department. Legal is not a line unit. It is there to advise and support line units. Legal is not there to stop you from doing something. Bob Fabian used to head our Legal group, and if you gave him a proposed course of action, he would always tell you what was wrong

with it. So I changed heads and got George Coombe. I told him, “I know the risk we’re taking. Your job is to help us do it, and keep us out of trouble at the same time.” George Coombe was much better at this. I can remember telling him at the time of the Arab embargo, “George, it's not your job to tell those of us in the line, including me, the CEO, what to do. You've got to tell us how we stay out of trouble. Or if we get into trouble, tell us what you can do to get us out of the hole. But it's the line that makes the final decision.” So if it's legal, the line determines whether it wants to get into that hole and incur all that trouble. Staff should stay out of it.

LaBerge: How about Personnel?

Clausen: Personnel is basically staff in my mind, but there are parts of it that lean more heavily into line – recruiting, personnel relations specialists, and so on.

LaBerge: What about Loan Approval?

Clausen: It depends. That one’s not black and white. There are certain kinds of activities in loan approval or credit approval that can be on both sides. Credit review is purely staff. It’s after the fact. They look at the quality of the loans that we made yesterday or last week, and then they look at all the documentation and the analysis and recheck it all. It’s redundant in many ways, but there’s a saying: “Letting a little sunshine in improves the quality of the judgment.” When loan officers know that everything they do is going to be reviewed, it keeps them on their toes, and the bank’s loan portfolio is stronger. So this is a case where staff people review the work of line people.

There’s a larger idea in here worth mentioning. And that is that the more open and transparent we can be, the healthier the organization will be. That was a central idea behind creating the Voluntary Disclosure Code. Even with our own staff, we have to openly discuss our problems and concerns, our goals and ambitions. Staff people are not stupid. My experience is that staff people are far brighter than what management tends to give them credit for. This being an election year, I say the same thing about the voters of the United States. John Q. Public has a pretty good sense of what ought to be done. And you can only influence that to a certain extent.

In some companies, line is line and staff is staff and never the twain shall meet. But that’s not so in Bank of America, I can remember Rudy

Peterson in the sixties describing this to an outsider. It must have been when I was chairman of the General Finance Committee. Rudy was active in customer promotion, and this may have been at a social dinner to sell our personalities and also to get the guy to borrow more from our bank. In those days, it was borrowing, borrowing, borrowing. Now it's less borrowing, but different kinds of service.

Rudy was saying, and I believe he was absolutely right, that Bank of America is very unusual in its ability to allow senior officers to move from staff to line and move from line to staff, and to know where he or she is all the time, and have that person perform the job superbly. That's Rudy talking, and that is true.

Let's use Dave Coulter as an example. He has been around the bank for nearly twenty years and he was my administrative assistant. A guy named Mac Terry who's no longer with us, had brought him into the bank. Coulter first had a "staff" job crunching numbers. He was doing financial analysis in our treasury area, looking at how well we're doing where, our market penetration, and which products were doing well. At one time that area reported to Lee Prussia, who was our chief financial officer.

When I was in the World Bank, Coulter left Bank of America and went to Goldman Sachs. He was there for about ninety days. He called me one day from New York and said, in essence, "You know, I think I might have made a mistake. It's a lot different being in investment banking than it is in commercial banking. I'm not all that comfortable here. Did I burn any bridges when I left the bank? How would you assess the possibility of my going back to the bank?"

I said, "Well, there's one way to find out. Let's ask. I will say that you were held in high regard in all respects. The bank ought to kill to get you back." Well, he came back. I don't know exactly where he went in the organization. We were fighting off First Interstate and Dave was being used to analyze alternatives that we had, because he was a great analyst. He's a visionary. I'm prejudiced, but I think Coulter is a great, great person.

LaBerge: So somehow he got to the line?

Clausen: He got to the line. The guy from Salomon Brothers who helped us fight off First Interstate told me he was very impressed with Dave Coulter and he hired Dave Coulter to go to Smith Barney, where he was for eight or nine months. Then I picked up the phone one day and called Dave and

said, “You know, how about coming back? We've got all these problems like third world debt. Lew [Coleman] needs some help, and you can shape your own job here, because you can do so many things. So how about it?”

So that's what he did. He came back and now he worked more on “line” jobs. Then we gave Dave greater responsibility. Eventually, he became head of Commercial Banking in the U.S. Division and then the World Banking Division.

Dave Coulter is a classic example of Rudy Peterson’s assertion that at Bank of America people can indeed move back and forth between staff and line.

Effects of the Arab Oil Crisis, 1970s

LaBerge: Back on October 17, 1973, OPEC [Organization of the Petroleum Exporting Countries] declared an embargo on the shipment of oil to those countries that had supported Israel in its conflict with Egypt. How did that affect the bank?

Clausen: Well, the Arab oil crisis, if you’re speaking particularly of the boycott, was a bit of a problem. The boycott was not only in regards to not sending oil to countries that supported Israel. The Arabs were going to boycott *banks* that were providing financial services to Israel, directly or indirectly. Part of the way in which this was being implemented was through the language in letters of credit. You need to know that, at the time, the Arabs were fat with cash from selling oil. Their economies were growing very rapidly, and they wanted to buy things.

So letters of credit were being issued all over the place. But now they put in their letters of credit that they did not want to import any goods that had anything to do with the Israelis. It was discriminatory language, evil language, which caused us and other international exporting banks around the world to have great difficulty. Some banks in some countries looked the other way and acceded to the discriminatory language against the Israelis.

I can remember having many, many sessions in my office on the fortieth floor with George Coombe, who was our general counsel, as to how to deal with this. We operate within a code of ethics and the philosophy that drives our institution and has driven it forever is dead set against discrimination, be it for gender, for color of skin, for religious differences or even for sexual preferences. We also had to consider our shareholders,

because we're also in the business to make money and we could lose a lot of business with this development. We found through some wise use of language that we could do a good chunk of the business we used to do without abusing our principles and ethics.

The oil crisis really led to massive global disintermediation of deposits. The overwhelming majority of non-Arab nations were importers of oil and had to buy a lot of it from Arab nations. So one could see that, with the Arab nations' control of oil, massive amounts of money were going to be flowing to the Arab nations. Therefore how do you intermediate those funds?

[Reference -- Begin Tape 33, Side A]

Oil Money in Bank of America and Slowing Growth

LaBerge: Could you tell me more about the impact of oil money on the bank at this time? Also, what was the effect of the Iranian hostage crisis?

Clausen: When a number of these countries would sell their oil, they would have the clearance go through Bank of America. They would have the buyer of their oil exports pay Bank of America, and then Bank of America would hold the monies for the benefit of Iran. Later on, during the Carter administration, there was a revolution. The Shah was thrown out and Ayatollah Khomeini took over. Iranians attacked our embassy in Teheran and held our government employees hostage. The Shah was a friend of David Rockefeller, the head of Chase Manhattan, and for that reason the Iranians who stepped in and took control of the state oil company told oil buyers to pay for it through Bank of America.

This was a huge problem for us. We didn't know who to talk to in Iran. We would call and say, "Stop the music! We don't want any more of this." The amount accrued was breaching the billion dollar maximum limit we had on any one account. Instead, we wanted our deposits to be diversified among different customers and types. For example, we would rather have ten accounts of $10 million each than one account of $100 million -- that kind of diversification.

So this was another impact of the oil crisis, and it came with a flourish when the rebels took over. As I recall, the rebels apparently didn't like Citibank either, at the time. I remember communicating with the president of the Central Bank of Iran, and writing to the Central Bank, giving our

rationale as to why they should use another bank for payments. He was later assassinated by the rebels.

The fact was our deposits were building up too much. I don't know what they peaked at -- I would guess maybe twice our limit, perhaps a bit more. I can't pull out a number, but it was way over the billion dollars limit and it might even have been more than two billion at that time. A big worry. When I became CEO in 1970 our deposits were about $25 billion. In 1980 they were $88 billion. That was a huge increase.

Another result of the Arab Oil embargo is that the price of oil went way up -- from three dollars a barrel to somewhere over twenty dollars and wealth skyrocketed in the oil producing nations. They became the nouveau riche. And that accelerated their imports and their development.

They did things with money that had never been done before. One sheik -- he might have been a minister of Saudi Arabia -- bought an iceberg from the Arctic Circle and towed it down around the Horn of Africa and up the Indian Ocean for Saudi Arabia's use. A glacier, when it melts, is as pure as water comes, and it was cold as well. It may have lost a little, maybe a lot, coming through the warmer waters, and it may have been terribly expensive. But from their perspective, who cares? It's only money. They had billions and billions of dollars in the ground. And the thinking was that the prices up around twenty-five bucks a barrel were going to last forever.

LaBerge: How were you able to slow the deposits? Just by putting a stop on taking them in?

Clausen: By changing the pricing. If you want to have fewer deposits, offer to pay a little less on them than your competitors. Let's say you're the financial manager for a nation. You've got a billion dollars, and you want to put it in Bank of America. Another top-rated bank is also interested in getting your money and they make a bid of 7 percent for 90-day money. Bank of America doesn't want that money, or not as much, so they bid 6 3/4 percent. You control it and you want the most return possible, so you give it to the second bank. So Bank of America does it through pricing. That's what the Money and Loan Policy Committee does.

Another approach is to have a conversation with the depositor. Most depositors will respond appropriately when the bank comes and says, "Germaine, we have so much of your deposits. Really, for your own good, you should take a billion of your deposits [chuckles] and put it someplace

else. Or diversify. How much do you have in deposits around the world?" You say, "Well, I've got $3 billion." And the bank may convince you to put some of that money elsewhere. With sound reason. You shouldn't put all your eggs in one basket. Strange things can happen. Even Bank of America can have great difficulties and suffer disintermediation. Citibank had great difficulties, and some lesser banks went broke.

Even the World Bank had rules for this -- no more than a billion dollars with any one institution. If they had $18 billion to deposit, they went to maybe sixty, seventy, or eighty banks across which to spread that $18 billion.

LaBerge: So that's how you did it.

Clausen: Bank of America had vast moneys. The size of the bank and our deposits grew like crazy for a period of years. I remember it was in 1974, in a quarterly report to the shareholders, that I said, "We're growing too fast. We're going to slow it down. Growth for growth's sake has no place in our philosophy. We're going to move to a policy of restraint. We're going to focus more on quality of assets and stability of earnings." That got a lot of attention.

LaBerge: It got attention in the press, I think, didn't it?

Clausen: Yes, it did, and by other banks as well. We had been in kind of a rat race -- a race, at least, with Citicorp. Citicorp was growing and they wanted to be number one. We wanted to be number one also, because at the time the internal measure of success was size and not necessarily profit. We happened to be the most profitable bank, but I said in that same announcement that we're going to slow it down; growth for growth's sake does no one any good. We're going to work for shareholders, and profit is what drives the shareholders. We were going to be the bank focused on profitability. For a while, we lost the mantle of being the most profitable bank to Citibank, but we got it back. Eventually, Citibank became the largest bank. That was the principal impact of the so-called Arab oil crisis.

LaBerge: So did you slow loans then to the less-developed countries?

Clausen: We did somewhat. In terms of deposits, we had great opportunities to get huge -- billions of dollars from oil-producing countries –and we did grow deposits, but we slowed the growth. We had the Auditing and Examining Committee of the board of directors start to monitor diversification of deposits. Tom McDaniel, president of Southern California Edison

Company chaired the A&E Committee. He was a terrific man, a terrific person.

[End of Tape 32, Side B]

Security after the Patty Hearst Kidnapping

LaBerge: You told me you received threats during the time of the Patty Hearst SLA [Symbionese Liberation Army] kidnapping. Would you talk about that?

Clausen: That's right. I received threats from an anonymous letter writer. Patty Hearst was kidnapped in 1974, but I was also threatened about the time of the assassination of George Moscone and Harvey Milk in 1978. Before this time, we had no security on the executive floor of this World Headquarters Building at all. Nothing. When you got off the elevator you could go anywhere on the floor without being stopped. So we changed the entrance and access to the executive floor. Now there are security guards in the elevator lobbies. And when one gets off the elevator on the executive floor, there's an electronic door that's controlled by a security guard who sits in a corner with a gun.

[Reference -- End of Tape 30, Side B. Begin Tape 31, Side A]

The letter writer who threatened me used some kind of a code name. One of his anonymous letters said that unless I caused the bank to take some specific action, I would lose my manhood on Father's Day that year. This was serious stuff. I didn't think too much of it at first. But then I found that someone painted my name on one of the support walls at the side of our building. Also they painted my name on the wall of the Pacific Union Club where I'm a member.

Then letters were sent to my neighbors. I lived on Ravenscourt Road in Hillsborough. My neighbors Dr. Parker and Dr. Ray got copies of the letter. Edgar Kaiser and Steve Bechtel got copies too. (They're both gone now.) Some other CEOs around town got copies. So I was a marked man. The bank was concerned enough that, in its wisdom, it decided to give me a little protection.

The Managing Committee then began to wrestle with how they would respond to a kidnapping of one our officers. What if one of the senior managers, myself or somebody else on the Managing Committee, was

kidnapped? In 1974, we were a $60 billion bank. So what if somebody made a ransom demand for $500 million or whatever? What should a bank do? What's a life worth? Obviously one of us on the management team shouldn't make that decision, because any payment would go out of the shareholder's pocket. That's a board decision.

Stan Langsdorf was our controller and a very calm man. He was a good, good controller, one of the best, and he helped us work through the issue. I also talked with Hornsby Wasson, the former chairman of Pacific Telephone. He was a wonderful, wonderful director and a true professional that always kept his calm very well. I talked with him about this as I did about a lot of issues. I spoke with several other directors as well, because if this ever arose, the board would have to make the decision. As I recall, we agreed that management could make decisions on smaller amounts if it came to that. And in fact, we got a number of such calls during the seventies. I remember two or three calls specifically. In one case, the wife of a branch manager was kidnapped, and a phone call came in to the manager saying, "We've got your wife, we want you to deliver $20,000." Our management team made the decision on that. We delivered, because life was worth a lot more than that. But what do you do when you get to the big numbers? What about a demand for $5 million? What about $10 million? If the police couldn't catch the kidnapper, we might have been inclined to pay it, but our reaction inside the hurricane might be different than that of the outside directors. Directors are there to protect the shareholders. So we worked that out together.

I couldn't walk the street in those days. I remember going over to a luncheon at Wells Fargo and a security guard walked over there with me, just a block away. And if I was going over to Chevron or down to the World Trade Club for lunch, I always had this shadow in the back of me.

An Intruder at the Clausen Home

I had two guards at home. I told you about the cocking of the shotgun.

LaBerge: Yes, but not on tape.

Clausen: Okay. That happened at my house. I had constant protection and oversight that lasted for maybe two or three months. Our house was situated so that you come through a gate, and the front doors are in the back near a court. We had an armed bank security guard slouching in a car in front of the house and another security guard in the back with a shotgun. They talked

with each other on walkie-talkies. For the first few weeks, nothing happened.

Peggy and I used to love sitting on our patio on Dr. Ray's side of the house. The patio was secluded, because our driveway was on the other side of the house. But during this time, it was kind of eerie since we knew that we were always within earshot of the guard. So we had to be a little careful of what we were talking about. That was awkward. Still, it was a nice house for us. I wish we still owned it, because I liked it better than the house we have now. Whoever bought that house from us ruined it by putting in a swimming pool, and so on.

But then one night Peggy and I were home along with Mark, our youngest son. The guard in the car in front said through his walkie-talkie to Bob, the guard in the rear, that a car just went by very slowly. It seemed suspicious. About twenty minutes later, the guard said, "That's the same car going by pretty slowly." After a bit, there was a noise right between our house and our neighbor, Dr. Ray's house. There was a fence between our property and his, and he had a driveway to his garage just on the other side of the fence. Now Bob used to be a deputy sheriff someplace and he was prepared. He went very quietly up to the fence and he heard some rustling noises on the other side. Later Bob asked me, [laughter] "Tom, what's the worst sound in the world?" I said, "I don't know." He said, "I'll tell you. It's the cocking of a shotgun when you're doing something wrong. And when I cocked my shotgun, I made it as loud as I could!" [Laughs]

Well, all hell broke loose! Some guy had been in the process of climbing over our fence carrying a bucket of paint obviously intent on painting some message on our house. But Bob had stopped that in a flash. The would-be painter must have been terrified, because the next morning we found paint spilled all over Dr. Ray's driveway! [laughs]. I felt a little responsible for that, and I helped him get it removed. But it was worth it. We never heard from that guy again. And that's what happened. The threat kind of went away. I didn't lose my manhood. And eventually I got rid of the guard.

Personal Dislike of Traveling with Security

I've never liked to travel with security. I almost always went on my own unless security was forced on me. It was a different, quieter world in those days. The World Bank wanted to have guards travel with me. Baloney. I didn't want to do it and I didn't do it. If something is going to happen, it's going to happen. Or it's not going to happen. The only place I can recall

using security when I was traveling for Bank of America was when I went to Argentina. They provided a guard there because things were tough in Argentina at that time.

[Reference: End of Tape 32, Side A]

Jimmy Carter Extends Invitation to Join His Team -- 1976

LaBerge: When Jimmy Carter was elected president in 1976, apparently he looked on you as a top candidate for practically every senior financial position in the U.S. government. Tell me about the jobs you were offered.

Clausen: President Carter asked me to do four things. I said "yes" to two, and I said "no" to two.

LaBerge: You said "yes" to the World Bank…

Clausen: I did that in 1980. And that same year I said "yes" to being a member of the U.S.-Japan Wiseman's Council, which I'll talk about when we get to that point.

LaBerge: So how did you get so prominent on Jimmy Carter's radar screen?

Speech in Nairobi Drew Attention

Clausen: I think the catalyst for it happened back in 1973 at the annual meetings of the World Bank entities and the International Monetary Fund held in Nairobi. As president and CEO of Bank of America and BankAmerica Corporation, I was asked to speak at the Kenya-American Chamber of Commerce breakfast in the Hilton Hotel in Nairobi. Bank of America was a member of a consortium of international banks that was the vehicle for having investments in Sub-Saharan Africa -- black Africa -- as contrasted with African countries on the Mediterranean. The consortium was SFOM, which stands for [Societé Financière pour les Pays d'Outre-Mer]. The consortium owned a commercial bank in Kenya. Bank of America, as a member, was given responsibility for the oversight of the Kenyan bank and their banks in Zaire, which had changed its name from Belgian Congo in 1971. The banks comprising SFOM were Bank of America, Banque Nationale de Paris [BNP], Banque Lambert in Brussels, Belgium, and Commerzbank in Germany.

LaBerge: Okay.

Clausen: Bank of America's principal guy in Kenya was a splendid young man by the name of Bob Stanley. Bob was providing oversight and guidance to the Kenyan bank and he was on the board of directors of the Chamber of Commerce. That's how I came to be asked to speak.

In my speech, I expressed empathy for developing countries and suggested that the International Monetary Fund should consider increasing the supply of SDRs -- Special Drawing Rights -- and do so in a non-inflationary way. In addition I said the IMF should tilt the distribution in a different way than previous SDR distributions; that is, they should tilt it more in favor of the developing countries.

The argument that I gave for SDR creation was that it would reduce the plight of developing countries that relied mostly upon commodities for earning their foreign exchange, as contrasted with manufactured goods and services. I believed that one way to relieve that plight was to give some additional financial resources to the developing countries and thus make the global playing field less distorted and more balanced.

At this same breakfast were Arthur Burns, the chairman of the Federal Reserve; Herb Stein, the chairman of the Council of Economic Advisors under Nixon; George Shultz, then-Secretary of the Treasury; U.S. congressmen and senators; local businessmen, and other distinguished guests. They were all there because the annual meetings of the World Bank and the IMF were getting underway that very day and continuing for the next three or four days.

I was sitting on the dais, of course, and as I was standing at the podium giving my address, Arthur Burns was so close on my left that he could have pulled the back of my coat. George Shultz was on my right, and he could have done the same on the other side. After I sat down, George Shultz said in essence that he was angry with me that I had suggested the creation of SDRs. In fact he was furious because it was the official position of the United States that it opposed the creation of SDRs, as that would be an inflationary step and unwarranted.

Being Norwegian, I confess to having a short trigger at times and my response was something to the effect that if a little bank on the West Coast can pull the rug out from under the position of the United States, maybe the position of the United States ought to be looked at again. Which was not flattering to me. I knew that what I was suggesting was against the expressed policy of the United States. I also knew that as CEO of the largest commercial bank in the United States that I was sticking my neck

out quite a bit. I was also taking a risk because I was on the Secretary of the Treasury's advisory committee of perhaps fifteen people, mostly commercial bankers like Walter Wriston of Citibank and David Rockefeller of Chase, but also CEOs of major international corporations like Caterpillar, General Electric, and General Motors. But in spite of the risks, I felt very deeply about the problem. And I was sure I was on safe economic grounds because Walter Hoadley, chief economist of Bank of America had helped me draft my remarks and since I had redone the remarks, I had called Walter the night before.

After my exchange with Secretary Shultz, Arthur Burns, who tuned into the conversation, said, “Tom, you had every right to say what you did, but you're just dead wrong, and it might not have been the most politic thing to do with senior government officials in the room right next to you.”

One or two years later, the first meeting of the Summit 7 was held at Rambouillet, France, at the invitation of Giscard d'Estaing. These were seven of the most industrialized countries in the world. It turned out that at this meeting, the heads of state of those seven governments agreed to do what I had recommended in my speech in Nairobi several years earlier. I think the day after that, George Shultz, who then was president of Bechtel, called me and asked if I was aware of what had happened at the Summit 7. I said, “No, I’m not.” In essence, he said, “Well, Tom, I would encourage you to look at the press coverage and get the press release because I know you'll be interested.” George was a very sensitive person, a terrific and honorable person, and a great statesman. He lived through Watergate without any of that sticking to him, not that he's Teflon-coated, but because he’s a man of true principle. It was his way of acknowledging that he might have been -- I don't want to say “sorry,” because he *was* right in chewing me out. But that he might have been wrong on the policy he was defending.

I said that I've had five great chewings-out in my life, and that was one of them. Another was from the manager of the Hollywood-Highland branch of Bank of America in Hollywood, California. When I was a trainee, he chewed me out for doing some dumb thing. Another great chewing-out, several of them, came from my wife. They were all memorable. Today, George Shultz is one of my best friends. I have great respect for him, and I believe and hope he has respect for me.

LaBerge: So how did that speech become a prelude to President Carter wanting you to take his highest-level financial positions?

Clausen: In the audience in Nairobi was Henry Reuss, a Wisconsin congressman who was the chair of the Banking Committee in the House, and Andrew Young, who was a congressman from Georgia and a friend of Jimmy Carter. Now move the clock forward. Ford lost the election to Carter in…

LaBerge: 1976.

Invitation to Meet With President-Elect Carter in Plains, Georgia

Clausen: Yes, in 1976. Right after the election, Stu [Stuart] Eizenstat, who was then a part of the staff of President-elect Carter, got on the phone to ask me if I would be willing to come to Plains, Georgia, in late November. He said he wanted me to join a group to help the President-elect shape policies that the United States should undertake during his presidency starting in January 1977. Of course I said, "Yes, I would be happy to." He asked me specifically if I would orchestrate the discussion on how to deal with the problems of New York City and similar kinds of problems that might arise in other major metropolitan areas in the United States. He said, "You're the only one who can lead this."

Parenthetically, several months before that, Congress had been holding hearings as to what the role of the government should be in helping dig New York City out of its near-bankruptcy situation. I had testified along with Walter Wriston of Citibank, David Rockefeller of Chase, and Pat Patterson of Morgan Guaranty. The other three major banks were all headquartered in New York City. Our bank was the only one of the four that was outside the eye of the hurricane.

So since the New York City financial problem continued to be in the news and I had testified on the issue, I thought it was certainly appropriate for the President-elect to zero in on that issue and ask me to participate. As it turned out, I was the only banker attending that brainstorming session that President-elect Carter orchestrated in Plains.

LaBerge: For the record, do you want to say what you recommended about New York City?

Clausen: It is on the record. I was in favor of the government helping New York City, but my recommendations were that the government keep direct control of the extension of credit rather than assign it to an intermediary group. The government should keep its own finger on the trigger rather than have somebody else's finger on the trigger. I felt that was the most controlled way to handle it. I know that's obtuse to everybody [laughter].

Needless to say, I don’t think Congress took our recommendation. The U.S. government did step in, but they wanted the intermediary group. The result was that Big Mac came into being and Felix Rohatyn left Lazard Frères to become the CEO of Big Mac. But it worked out all right. Rohatyn orchestrated the salvation of New York City and kept it from going bankrupt.

Bank of America had been invited to testify because we were very big, and still are. At that time, I think we were the largest underwriter of municipal bonds in the United States. That's tax-exempt municipal bonds. We could underwrite bonds in those days, and still can, but we could not underwrite equities.

As an aside, after the four bankers had testified and answered questions from the Committee -- I think this was before the Senate Banking Committee, rather than the House Banking Committee -- Abe [Abraham] Beame, then the mayor of New York, also testified. When he concluded, Walter Wriston, who was sitting next to me, leaned over and said, “Tom, we'll give you Abe Beame and two draft choices if we can get [San Francisco mayor Joseph] Alioto. You take Beame off of our hands.” What Abe Beame was doing as mayor was just the opposite of what the four bankers were recommending to the Senate as a solution for New York City's problems.

Traveling to Plains, Georgia

The meeting with President-elect Carter in Plains, Georgia, was scheduled to take place one day at twelve thirty or one o’clock in the afternoon. It turned out that the night before, I needed to chair a B'nai B'rith fundraising dinner in San Francisco honoring mayor George Moscone. (He was subsequently assassinated). So getting to Plains, Georgia, on time would be a tight, tight squeeze. When the dinner was over at ten, Peggy went to our home in Hillsborough, and the driver took me to the bank plane in Oakland. The plane was configured so it could sleep four people horizontally. Since I was the only passenger and there was no cabin crew, I put on my pajamas and we took off at about four in the morning -- that's seven a.m. Georgia time -- so we could get there at eleven thirty or quarter to twelve. I had four or so hours of sleep before we landed in Plains, or perhaps Americus, Georgia. Just then Irv Shapiro, the CEO of DuPont, also landed, so we shared a car and driver that had been sent to the airstrip by the Carter forces. Irv and I rode into Plains together and went to the pond house of Jimmy Carter’s mother, who was called “Miss Lillian.”

Did I tell you this?

LaBerge: No, this is wonderful.

Miss Lillian's Pond House

Clausen: Jimmy and his brother, Billy built Miss Lillian's house for her when she was in the Peace Corps in India. It was a small house next to a pond of water with perhaps two bedrooms upstairs and none downstairs. It had a kitchen, a big living room with a vaulted ceiling, a bathroom in the rear, and maybe a little washing area off the kitchen. As I understand it, Miss Lillian's pond house was a place where the family could go to rest, to escape, to picnic, and I guess they could fish in the pond. But what impressed me about the house was that on the big wall with the vaulted ceiling were books from floor to ceiling. You had to have a big ladder to get up to the top. The books were thumb-worn, unlike my own books. I'm a little bit of an elitist in that I want leather-bound books. But the books in Miss Lillian's pond house had been read, not once, but twice, studied and underlined. They were mostly histories, autobiographies, biographies, and books on international and global subjects. It was one of the best personal libraries I had ever seen.

LaBerge: And these were hers, not her son's?

Clausen: Well, no. Miss Lillian said, "Billy is the smart one. Billy is the one who reads." That's in the history books.

As an aside, I wish my own books were thumb-worn like President Carter's. I've read the originals but I don't think either of my sons has a love of books and reading. They're of a different era entirely. Whereas I grew up reading and writing, they communicate back and forth on their computers. I don't regret my upbringing and I think it had some strong advantages, so this just continues to prove I am terribly old-fashioned in most things. I've instructed both of my sons that when I go, my books are for the family, to be read. I hope my grandchildren will appreciate them. And incidentally, Eric and Marc, it wouldn't do you any harm to read some of these diatribes, because it's part of one's education.

LaBerge: Who else attended this get-together in Miss Lillian's pond house?

Clausen: Bert Lance was the first one to arrive, so there was Irv and myself and Bert and we got a chance to visit a little bit. It was the first time I met him and we had an interesting discussion. He's an interesting personality. Bert

got into quite a bit of trouble later. He went down in flames and left the Carter administration.

There must have been twenty people in the group including the Nobel laureate economist from Pennsylvania, Lawrence Klein, Vice President-elect Walter Mondale, Juanita Kreps, who became Secretary of Commerce, Jody Powell, and Hamilton Jordan. And, of course, President-elect Carter. I looked around the room and I said, “My goodness, I'm the only Republican here!”

[Reference -- End of Tape 24, Side A. Begin Tape 24, Side B]

LaBerge: Were you the only banker?

Clausen: I was the only banker.

LaBerge: What happened in the meeting?

Clausen: Stu Eizenstat orchestrated the meeting and we met all afternoon and into the early evening in a discussion session. The purpose was to review a wide range of challenges and issues that would face the new Carter Administration and discuss how the President and his team should address them. I was asked to discuss the New York City government bailout and its ramifications, and also what the role of the Carter administration should be in similar situations.

I guess that a lot of assignments had been handed out earlier. Klein, the economist, was asked to give an appraisal of the economic situation in the U.S. and the world over the ensuing four years, and some of the issues that might be coming up for the administration. We discussed what the policy of the United States should be on trade on a global basis with some specifics, because even in 1976, Japan was on the forefront of the trade imbalance. Although that imbalance looked large at the time, as we sit here twenty years later, wouldn't we love to have the trade imbalance back to where it was then?

We discussed fiscal policy and the relationship between the government and the Federal Reserve – that although there ought to be close communication between the Secretary of the Treasury and the Chairman of the Federal Reserve Bank, the government’s policy should be “hands off.” I think we were clearly in favor of the practice of having the Secretary of the Treasury and the Chairman of the Federal Reserve Bank

have frequent meetings, like a breakfast together once every week, or maybe even an institutionalized event. In any case, we felt it was beneficial and ought to be continued. We discussed things of that nature.

President-elect Carter really impressed me at that meeting for his grasp of the issues. People were taking notes all over. Carter made very few notes, but he asked very probing questions.

Somewhere in the middle of the afternoon somebody, maybe it was Mondale or Carter, said, “Well, how about a Coke?” So Hamilton went and opened the refrigerator and it was empty. I remember Carter saying, “Let's call Paul and tell him he needs to restock.” I wondered if “Paul” was John Paul Austin, then the CEO of Coca-Cola, which was headquartered nearby in Atlanta, Georgia. But it could have been some guy named Paul who was supposed to keep the pond house stocked. My guess is that it was Paul Austin because president-elects from Georgia would get their refrigerators stocked with the home-state product, Coca-Cola.

Reporters were milling around outside, but they were not allowed inside. When we broke up the meeting somewhere around seven-fifteen or seven-twenty, President-elect Carter went out to meet with the press. He used no notes. But he gave a brilliant summation of the issues that were discussed over that long afternoon and evening.

Just a bit earlier, President-elect Carter took over our session. He said some very nice things about the group and then he said, “Let me tell you something else. There's another reason we wanted you all here. We're considering formulating our cabinet for the administration, and you obviously have put two and two together, or else you wouldn't be here. Each one of you is being considered to be invited to become a member of our cabinet.”

Well, that was a surprise to me, because before I went to Plains, I’d talked to members of Bank of America’s Managing Committee and we felt I was asked to go because Bank of America was the most successful privately-owned bank in the world at that time. It was rich in resources, and we felt that if the President-elect wanted to access our resources, we ought to make ourselves available. So I went for that reason.

Mr. Carter closed this meeting saying in essence, that in all fairness, if any of us didn’t wish to be considered, would we please let him know right away so he and his team didn't waste a lot of time.

Responding to the President-Elect's Request

After I left, my plane flew some other place to refuel and I called Clarence Baumhefner who was the chief financial officer of BankAmerica. Baum was a close friend and a man with inordinately good judgment. I said, " It never dawned on me that I was being considered for a cabinet job. That's not my role, and I don't want to be considered." We talked about it and Baum agreed this wasn't right for me. So I asked him to think about how I could get back to President-elect Carter by the next morning and how to word the cable properly. I told Baum, "I want to say that 'vis-a-vis your closing comments yesterday, I'm terribly flattered to be considered, but I just can't,' and let's give a reason why I can't – 'I'm a Republican' or 'I look smarter than I really am.'"

The next morning when I landed, a draft of that message was waiting for me with several suggestions, which I looked at on the way home. And early that morning, I sent the wire to President-elect Carter in Plains, Georgia, saying, "Thank you for the consideration, but I find that my responsibilities here at Bank of America are such that I could not accommodate an invitation for whatever reason." It was to the effect that, "Thanks, I'm terribly honored, but I don't wish to be considered."

LaBerge: Did President-elect Carter suggest to you which position he had in mind for you?

Clausen: No, he only spoke generically.

LaBerge: So although you didn't want to be in the cabinet, he now knew you personally and later this led to the offer to head the World Bank?

Willingness to Help the Carter Administration

Well, let me continue that. After Carter became President, the Carter administration evidenced interest in me in a number of ways, and I met President Carter a number of times. I was always very cooperative. I believe that Bank of America was, at that time, still the largest bank in the United States. Clearly we were the most profitable commercial bank in the United States. And we had a lot of resources. I felt it was not only patriotic but even beneficial to Bank of America's shareholders if we could become a resource to the government, making ourselves available with advice and so on. I say that in a non-arrogant way, because I believed then as I do today that the quality of the statistics and information gathering and

economic analysis that came from my colleagues in Bank of America was first-rate.

President Carter Changes U.S. Financial Leaders

After Arthur Burns, Bill Miller was appointed to be the chairman of the Federal Reserve. Bill Miller was a private sector CEO who had chaired the U.S.-Soviet Union organization comprised of CEOs of U.S. companies and counterpart Soviet Union companies. He had done an excellent job in that. But in my view, he was not a very good Chairman of the Federal Reserve. Mike Blumenthal was the Secretary of the Treasury, and if we're going to say that Bill Miller was not a very good Chairman of the Central Bank, then Mike Blumenthal was a bomb as Treasury Secretary. He had been trying to talk the dollar down and depreciate it to help the United States become more competitive in trade matters -- the trade deficit would be reduced if the dollar could be depreciated. But Blumenthal received much criticism for that, so Carter was going to make a move. He was going to get rid of Blumenthal and move Miller into the position of Secretary of the Treasury, for which he thought Miller was better suited.

President Carter Offers Mr. Clausen the Role of Chairman of the Federal Reserve

And so in 1979, I received a call from the office of the President asking, would I be willing to become the Chairman of the Federal Reserve following Bill Miller? I was asked to think about it, and I was told that the President would be calling me the next day.

LaBerge: This call was to come from Jimmy Carter?

Clausen: This was Carter. When his phone call came, I was orchestrating a meeting elsewhere in the building, which I could not interrupt. I suppose I could have said, “Excuse me, gentlemen, the White House is calling,” but I didn't. I just said, “Tell the President I'm in the middle of chairing a meeting, and I'll call him back when I can.” I knew what the call was about, and I knew I was going to say “no.” When I called him back, the President was busy, but they were waiting for my call and they switched me to Walter Mondale, the Vice President. Fritz Mondale is also a University of Minnesota Law School graduate and he and I knew each other and had that tie. So Mondale got on the phone and on behalf of President Carter, he made a strong pitch. Would I please accept the chairmanship of the Federal Reserve?

But basically, the offer had come out of the blue, and I hadn't really had time to think about it. I said, "Well, if you want a fast answer, I've got to say "no." I haven't thought about it at all." Walter didn't want to accept that answer and he told me, "No, no, we don't want a fast answer. Think about it." He said he wanted to talk to the president and he asked, "Can I call you tomorrow morning? What time do you leave for the office?" I said, "I leave for the office about eight so I can get there about eight-thirty."

Germaine, I've read a lot of speculation on the jobs I was offered, and this is the first time I'm reporting personally *my* side of what actually happened. I'm hoping that telling this as objectively as I can will be important for historians.

Reasons for Saying "No"

The next morning Vice President Mondale called at home about seven-thirty or so. We had the two-story house then at 510 Ravenscourt and I remember taking the phone call in the hall. I said, "Walter, I really can't take this position." I told him that the Bank of America was growing. When I became the CEO of Bank of America on January 1, 1970, the bank was $25 billion in assets, and now it was like $80 or $90 billion. We'd had an unbroken record of maybe seventeen or eighteen years where profit per share had gone up each year without falling back. Profits had grown, staff had grown, revenues had grown, everything had grown. It was a full-time job managing the growth and keeping the bank on track. I wrapped this up saying, "There's no one here at Bank of America I can pass the baton off to."

Nevertheless, he still wanted me to consider the position. So then I told Walter that I was a "closet diabetic" and that on instructions of my doctor, I was supposed to avoid pressure and stress.

That excuse sounds terrible now, and I never felt good about it later. But it was true that my diabetes doctor, Dr. Peter Forsham, did not want me to take a stressful job. Even later, Peter did not want me to go to Washington and take the World Bank job, though after I did, he advised me on how to deal with the stress and pressure. There is certainly a lot of stress and pressure in being the CEO of large enterprises, but there is even more in heading major parts of the United States government, the biggest government in the world. The stress at Bank of America is here [gestures to medium height]; the stress there would be way up here [gestures] by factors more. And the role of Chairman of the central bank is one of the

most pressure-packed of all, because you're damned if you do and damned if you don't.

So I leaned on being diabetic as an excuse. I was looking to add to the weight of reasons why I was saying “no” to an invitation coming from the President of the United States. The President of the United States, you know, that's power. It’s very difficult to say “no” to him -- seeing the flag waving, hearing the Star-Spangled Banner playing, and knowing you have an opportunity to serve your country, as I had during World War II. So that's the only time I've used being a diabetic as an excuse for not taking a job. And finally, I might have said, “Walter, as you know, I'm also a Republican.”

LaBerge: You told me once that the job of president of the World Bank didn’t play to your strengths. Is that what you thought about the Federal Reserve? That maybe that job wasn't going to draw on your strengths?

Clausen: That’s true. I just didn't think that I would be good at being the chairman of the Federal Reserve Bank.

The Mentor System and Development

LaBerge: Developing the bank’s future leaders has always been a concern of yours, and now it must have seemed more important than ever. What were some of the most successful approaches you’ve taken part in or led?

Clausen: Rudy Peterson started one of them back in the 1960s. He thought we should take our brightest people, the ones who had the greatest potential, and expose them to higher-level senior officers on a regular basis. We talked earlier about the “couth school” where thirty or so junior officers were asked to spend close to two weeks at Pomona. It's really astounding how well they progressed within the organization. Out of that group came the bank’s chairman, Chauncey Medberry, myself, and perhaps five others who ended up on the Managing Committee. So seven out of the original thirty ended up on the top tier of the bank. I think we all felt good about being invited to take part and we looked on it as recognition and reward.

There are other ways to reward and recognize future leaders. One that I decry being gone is the Junior Advisory Council. We talked earlier about my being a member of that. We felt wonderful about being tapped on the shoulder to join the JAC. It wasn’t a permanent assignment, but you learned a heck of a lot during your time on it. You met a lot of senior officers because they came in and made presentations and talked

informally with you. This was in the days when we had a northern headquarters and a southern headquarters. Today we don't, and it's much better now, because we're one organization.

We had a mentoring program too.

LaBerge: And were you one of the mentors?

Clausen: I was one of the mentors. The Peterson administration wanted to do something about developing our younger people. And in concept it was fine. Looking back on the program, it had some flaws, but it had some good people in the program.

I did my best for the people assigned to me. I set up a pattern where once every other week or so we would get together at four p.m. and then have dinner and talk until nine or ten o'clock. I would answer questions as best I could. But I'd also ask them questions. It was an informal, unstructured approach. Then we'd decide what we wanted to talk about the next time we met. Once a quarter or thereabouts the whole group of young officers would get together and receive a presentation. I knew Peter Drucker, and we got him to come talk to our group. I got Charlie Williams from the Harvard Business School and another Harvard professor to come out and talk to officers whom we wanted to develop and expose to ideas.

LaBerge: Did you continue this when you were president?

Clausen: No, I did not. The mentor system was a good system, and it came at a good time. But there are other ways in which to develop people. I was in love with the Harvard Business School Advanced Management Program, having been a product of that 13-week program. I benefited from getting out of the bank and going to a different environment. I felt that I was not going to be the CEO until I reached sixty-five in nineteen years because it would be unfair to the bank, unfair to my colleagues in senior management, and unfair to me, because sometime down the line I would benefit from a change. So I wanted to put a lot of up-and-coming bank officers through the best development program around so we would have good candidates for the CEO position when the time came. And in my mind, that was the Advanced Management Program at Harvard.

I also think the collegial approach to problem solving is an effective development tool. Yes, it's informal and unstructured, but it has lots of benefits. One hears new ideas from different people from different parts of the bank. And a younger person taking part learns how listening to

colleagues can help produce higher quality decisions. As CEO, I find that collegial sessions also call forth the best ideas that people have to offer, and that's a great way for me to assess the quality of the people we have.

I'll say too that even when people become senior officers, assessments of what they have to offer never really end. At this last board retreat, the performance of one of our senior officers was embarrassingly bad. That didn't help his ambitions for his future. We're not talking about CEO succession now because Dave Coulter has only been in office for eight months. But down the line, who do you put in charge of running what? After all, when you're trying to manage $240 billion of assets, there are some other terribly important jobs within that complex. So you learn a lot by watching people and how they present themselves.

I said before that Harvard was a great experience for me. It charges up your batteries to get out from under things, to change the routine and rhythm of your life, and to talk to different people. I felt so good about the experience that when I became CEO, I wanted to send two people a year to Harvard. And over ten years we put twenty people in BankAmerica Corporation into the Advanced Management Program experience. I've always believed that the institution of Bank of America is not any better than the quality of the people it has. So let's invest in people and develop them. Even though we're an entity with 350,000 shareholders and $240 billion in assets, we're a people business. And none of those statistics will be generated unless we have the best people to run it.

Executive Exchange Program

Another program I felt was awfully good was called the Executive Exchange Program. This was where corporations would be invited by the U.S. government to send some of their outstanding people to Washington for a year to get the feel of the nation's government. In exchange, the corporation would host a career person from government for a year. I was intrigued with that program, and we sent Sam Armacost to Washington for a year. Over time, we also sent seven or eight others. Most of them are no longer with the bank, because this was in the seventies, a long time ago.

As CEO, I felt that Bank of America had an obligation to help develop leaders in other sectors of society where we could do so. For instance, we would take other government bureaucrats into the bank from time to time, so that they could learn the private sector. I always made Bank of America available to visiting groups wanting to learn something about banking. For instance, the Brookings Institution might put together a group and take

them to Chicago, Houston, San Francisco, and Los Angeles. There might be twenty-five or thirty of them in the group, including government people from Washington and younger congressmen. We'd give them lunch and have them get a feel for Bank of America and how we operated, and then I'd stand for questions. My goal was to help them see that we are an international bank, a domestic national bank, a California bank, and a local bank. And this is what we do and how we do it. We tried to educate the government people.

For much of my life, the government and private sector have been adversaries. I believe they ought to be partners. We'd be a much better country if all constituencies were feeding out of the same trough. I know I'm speaking in a utopian sense now, and it will not happen, but at least government and business should be cooperative and not adversarial. And it's been my experience that when you get to know people who you think are the adversary, it's remarkable how you discover that they're a lot better than you thought. So we tried to help that happen between government and the private sector.

We also sent our officers up to the state of Washington. There's a great school up there, the Pacific Coast Banking School. I believe in that program and I chaired our involvement twice. Bank of America has always been a strong contributor. It's run by the University of Washington in Seattle and participated in by commercial banks from the countries on the Pacific Rim.

Northwestern University always had excellent programs too and we would send people there. Don Jacobs was dean of the business school. UCLA and Stanford also had programs to which we would send our outstanding young officers.

We selected our people carefully. We didn't adhere to a strict quota from a department or division within the bank. We tried to be even-handed, but we were primarily after people with potential. I always watched over twenty-five younger people given to me by the Personnel Department. These were really truly outstanding people. I would get the list refreshed once a year and during the ensuing months, I would go out of my way to see each of these people, if I could. If that weren't possible, I'd register the name and look a little more carefully at how they were doing. Over time, you get to know them. I also had a list of twenty-five in a different drawer on the other side of the desk. These were people we ought to get rid of and make room for others to come on board.

[Begin Tape 16, Side A]

Background to Mr. Clausen Leaving Bank of America

LaBerge: You were still very successful as CEO of Bank of America. How did it come about that you left that position to head the World Bank?

Clausen: How did it come about? Well, I was asked. I did not lobby for it. But in 1980, I heard a number of off-handed questions and comments from well-connected people. They asked me, “Have you heard the rumor you're going be asked to go to Washington?” “No,” I said. “I haven't heard the rumor. You're the first to tell me about it.” And so those questions just kind of disappeared. But then in the summer of 1980 the rumors got stronger.

You remember my telling you how I viewed my future tenure when I first became CEO of Bank of America on January 1, 1970. I was 46 years old and I had a strong belief that if you can't show what you have and what you are as a CEO in eight to ten years, staying nineteen years would be absolutely wrong. I told myself intellectually that I would just be repeating myself in later years and I would also plug a hole for other people as good or better than me. That would be trouble for the institution and trouble for me as well. I'm a corporate person; I make personal sacrifices for the good of the corporation. Don't ask me why. But my feeling is that if the corporation does well and does better then well, I stand taller as an individual in the community for being the boss. So from the very beginning when I succeeded Rudy Peterson, I decided that this was going to be an eight- to ten-year job. Therefore, I prepared myself to leave starting in 1978 or thereabouts.

I didn't announce it and say that whenever I leave, so and so is going to succeed me. And we know the public can get the wrong idea who the successor is. Just a few months ago, for example, Dave Coulter came as a big surprise to many people. My succession to Rudy Peterson probably also was a surprise. The other candidate, who really wanted it --

LaBerge: Sam Stewart?

Clausen: Yes, Sam Stewart. It might even have surprised him. I have *Wall Street Journal* articles that say it was a surprise that the board picked Clausen and not Stewart. Stewart was sixty, and I was forty-six.

I had not announced who my choice of successor was, but one could have interpreted it from my "body language," and I had told two or three others in confidence about my thinking. One was Bob DiGiorgio, who was the chairman of our compensation committee of the board. Another was Rudy Peterson. The third, whom I can't recall for sure, might have been Phil Hawley. I was close to Phil. For the record, he just retired at age seventy.

Trust and Making the Transition from "Doer" to CEO

LaBerge: Did you take press inquiries personally or did you have someone else handle them?

Clausen: As CEO, I tried to be disciplined and send all questions and problems to the right department in the bank. I'm not smart enough to know how to do everybody's job. Even though I'm a lawyer, I sent legal questions to the Legal Department. And I sent questions to the media relations people. It's not that I was chicken. It's just that if the CEO tries to micromanage, he can no longer be the court of last resort. And the CEO should be the final voice. For example, a disgruntled customer who's had a loan declined may contact the CEO's office, but the case needs to be handed to a group that can work through the details. The loan was probably declined for good reasons. What were they? Then perhaps we can counsel the customer on how to make the loan creditworthy.

James Stillman Rockefeller was a Citibank Rockefeller (a different branch of the Rockefeller family than David Rockefeller and John D. Rockefeller.) He had a remarkable phrase that I've used thousands of times: "Only the bad deals are made in heaven." To me that means, "Only the bad deals are made by the CEO." That's because the CEO doesn't have time to analyze the information on a loan or investment. The real job of the CEO is to lead and manage. There are "doers" under the CEO and he should let them do their job. So "Only the bad deals are made in heaven" is a bit of wisdom that says a lot to me. I don't know where I first heard it.

LaBerge: Did you get it from Harvard?

Clausen: I don't know. I do know that I got to the CEO position by doing. But once I was up here, I learned that I had more important things to do. I had to think and act strategically, and I couldn't micromanage. Once you become CEO, you can't progress if you want to keep doing what you used to do. At some point, you have to cut that out and trust the system. If you have a good system with good checks and balances and good people, you'll

manage successfully. That's what I learned at Harvard at the Advanced Management Program.

Harvard also taught me the value of planning. As I've said, the most important thing that comes out of planning is not the product. It's the process that forces you and your colleagues to think through how all the pieces interrelate. The payoff is in the process. You may miss the first plan's goals pretty badly, but after four, five, or six times, you get pretty good, particularly if the same people are repeatedly going through the same process. That's what I learned at Harvard.

In the seventies when Bank of America was doing very well, I said we were doing well because of planning and not in spite of it. I give planning a lot of credit, and I give Harvard a lot of credit for presenting me with the techniques. When I became CEO, I didn't think Bank of America was a very good planner. Now, I have all respect for Rudy Peterson. It's just that those were simpler days when planning wasn't so critical a function. We were at $25.6 billion in resources at the start of 1970. Rudy had brought it from $15.4 billion. That's fantastic – an increase of over two-thirds in six years. And I took it from $25.6 to $115 billion in twelve years as CEO before I went to Washington.

[End tape 7, side B]

Thoughts on Succession Planning

LaBerge: You had set an eight to ten year timeframe for yourself as CEO. As that began to wind down, what did you do to ensure that someone was prepared to take over for you?

Clausen: As with most preparation for the future, you've got to lay pipe. At the board, we spent at least one afternoon a quarter talking about senior officers and what they needed for their development. When a person gets to be a senior officer, I think he or she should already be trained. I would say that, on a macro basis, Bank of America does a great job on training but not a very good job on development. When I came back as CEO the second time, the bank had not developed someone who could succeed Sam Armacost and who could succeed me. The board had to go outside. That was probably my fault, I guess, for not properly training and developing successors. I thought I had a good one in Al Rice, and when he left, there was nobody else inside the bank that I felt had the experience to take over

as CEO. But I thought I had trained Armacost and prepared him to take over successfully.

Had I to do it over again today, I would say I would probably still pick Sam Armacost. Armacost was good. The mistake was in not surrounding Armacost with strength. Instead, we associated him with Lee Prussia as his chairman of the board. Medberry and Clausen were like this [makes gesture of closeness], but the team of Armacost and Prussia were not like this [gestures]. Prussia really wanted to be CEO and he lobbied hard for it. Sam was not lobbying for the job. I won't say he was reluctant, but he was what -- forty-three years old? He was young and inexperienced. I told Sam, "You can do it." I also remember telling Prussia, "You've got to help Sam. I know you wanted the job, but now you've got to help him succeed. It's a big job and your role is to help."

I can remember when I hired George Coombe, I told him, "We have a tradition here at Bank of America of trying to promote from within. One of your jobs as head of the Legal Department is to train your successor." It turned out we didn't do that. The number two guys in the Legal Department were found to be a little short. But in their defense, the longer you know somebody, the more imperfections you see. That's true of cars. Your car looks beautiful to your neighbor, but when you change the oil you notice there's a fleck of oil under the hood, and that's what you think about. Nevertheless, we hired Mike Halloran from Pillsbury, Madison, and Sutro. Mike's a good general counsel.

[Reference: Near end of Tape 16, Side A. Beginning of Tape 16, Side B]

LaBerge: Were there other senior officers you had to let go?

Clausen: Yes, both at Bank of America and at the World Bank. Here I had to change the general counsel, Bob Fabian. Bob got his law degree at the University of Minnesota, just as I did. His wife was also a lawyer. They were both Order of the Coif, which were the elite scholars of the law. I was not Order of the Coif. I worked my way through law school to feed myself, and I also needed to sleep. So my grades at law school were not terrific. Fabian was also law review. But he was predictable. When we had a new product we wanted to sell, something new we wanted to introduce, we always brought it to the Legal Department for review.

LaBerge: The general counsel wasn't on the Managing Committee?

Clausen: Never, and for the same reason the controller wasn't. The Managing Committee needs to get independent legal advice from the general counsel. He shouldn't participate in decisions about whether or not we will sell bonds or more stock or whatever. He ought to remain aloof, separate, and independent from that.

When we brought our situation to Bob Fabian, invariably the first thing he said was, “You can't do that.” He gave us all the reasons why we couldn’t or shouldn't do something. Of course, I wanted a general counsel that would tell us the obstacles, but I also wanted one who would help us constructively shape a package or a deal so we *could* do it. But Bob Fabian could not cross that Rubicon.

LaBerge: So you had to fire Fabian or ask him to leave.

Clausen: I had to help Bob Fabian leave and I put him on a retainer. Then I hired George Coombe. George was the number three lawyer at General Motors. My recollection is that the new general counsel at General Motors was maybe a couple years older than George, so that spot wasn’t available to George in the near future and he was ready to leave. I got some help from Lloyd Cutler, our friend in Washington, D.C., who later was the general counsel for President Carter when I went to the World Bank. Coombe was good for the organization. He had some weaknesses, but doesn't everybody?

[Reference: End of Tape 16, Side B. Begin Tape 17, Side A]

Promoting One Spouse

LaBerge: In one of our off-line discussions, you talked about the challenges of promoting one member of a family when both spouses work for the same company.

Clausen: We have a number of those situations. In promoting to senior titles, I always thought that when I was the chair, I didn't want to be a marriage buster. So I was inclined to ask the person who was up for promotion if they wanted it. That could as easily be the female as the male. It was not infrequent that the female was a lot better than the male spouse who was also working here. Sometimes in cases where both worked in the bank, differences in pay and seniority could lead to emotional stress in the family.

My son in Washington, D.C. is an example. He and his wife just separated and he has moved to his own apartment. His wife, our daughter-in-law, is a medical doctor. She's terrific, but really spoiled. My son is hard working, a good father, but feels the burden of having to prove something. He's making about $65,000 and I'm guessing she's making close to twice that, say $115,000 to $125,000. Both are employees. She's been invited to be a partner of a medical practice. One problem is that she's a spendthrift. And he's working very hard to displace an equal amount of weight. So in their relationship, questions of money and who is carrying their fair share are very emotionally charged issues.

As Mark's parents, we're helping him through this. We're providing for the education for our four grandchildren through education trusts. Mark and my daughter-in-law won't have to save a penny for the education of their children, as there's almost enough there now for all of them. My granddaughter, for example, who is two, has $96,000 in her education trust. Tax law allows us to give twenty thousand a year. So we gave $20,000 the first year, twenty the next year, and twenty this year. That's sixty thousand. Overall, it's worth just a little less than a hundred thousand dollars. She's not going to be going to a university for another sixteen years, and that ought to double by then. We know education is going to cost a lot more than it is today, but we think this should cover it. Also this allows us to pass off to our family some of the funds we've already accumulated and keep them out of the clutches of Uncle Sam. If we don't do that, then 55 percent goes to the government, and less goes to the family.

Back to the challenge of promoting one of two spouses working in the same organization. I can remember two or three occasions when we asked the wife, "Is it all right? Will you let us give you a vice-president title? You've earned it, you deserve it, and you're worth it. There's also a little raise." Actually, on one occasion, it was rejected.

In cases like this, it was very helpful to have a head of Personnel who you could trust to handle this correctly. I think I told you something about George Skoglund. He was the best personnel director in the almost fifty years I've been associated with Bank of America.

LaBerge: Yes, you've talked about him before.

Clausen: George was a very close friend and he was great with people. He was the kind of person to whom you could bare your soul. An employee might not want to talk to their boss because it could affect their next raise or job

status. There has to be an escape valve. A good head of Personnel is the kind of person who says, “You can talk to me confidentially, and it will stop here. I'll protect you.” Bosses tend to try and get more for less from employees, and my charge to the head of Personnel was, “You have to be the advocate for employees.” George Skoglund was exactly that.

Context of Going to the World Bank

LaBerge: Tell me how your going to the World Bank actually came about.

Clausen: I was not looking for a job at all. I still found challenge in my role here as CEO. It was just that philosophically, I had been ready to leave. And then in the summer of 1980, I started hearing rumors and even read in a prominent paper, perhaps the *Washington Post* or the *Wall Street Journal*, that there was speculation I would be asked to succeed Robert McNamara as head of the World Bank. Bob had announced in June of 1980 that he would be leaving at the end of June 1981, before his term expired. Of course a lot of other names were mentioned too. People like Senator Alan Cranston approached me kind of conversationally to see if I was interested, but I said, “No, I’m not.”

I remember sitting lakeside at the Bohemian Grove in the summer of 1980. The summer encampment lasts about two weeks and takes up three weekends. The Grove has a lake next to which an address is given every noon by somebody -- academics like John Gardner, astronauts, athletes like Arnold Palmer, former presidents Nixon and Bush, former members of the cabinet, and present and former CEOs. Herbert Hoover used to give the last lakeside address. Somebody from Washington sidled up next to me and said, “You should know that your name is really all over town that they want you for the next president of the World Bank.” So there it was again. Saul Linowitz, the former CEO of Xerox told me, “The whole Grove is talking about it.” In the evening, people would sit around the campfires, have a drink and talk before turning in and I guess I was the focus of discussion of a good many camps. I was told that one camp had an informal discussion of who ought to be the next president of the World Bank, and I was kind of elected by that camp as being the strongest candidate. Not that those individuals have any direct influence on who is or isn't chosen. But I kept saying “no” and I tried to get the word out that I'm not ready to leave Bank of America and I'm not looking for a job. Particularly not that one. But it kept coming back.

Speaking with the Vice President about the World Bank Position

LaBerge: Who from the government officially approached you about the World Bank?

Clausen: My discussions on this were always with Vice President Mondale. The President never wants to be turned down, just like a CEO never wants to be turned down. You always send an emissary. Sometimes you leak something and get a reaction. That might have been the case with the World Bank and me. Nevertheless, I didn't take the position until I'd had several discussions with Bill Miller, the Secretary of the Treasury. We talked at length over a period of time. Initially, I said "no" to Bill Miller. But thirty days later he came back and said, "Tom, you've just got to change your mind. You're the best one that we can think of."

A footnote here. It's important to know that the position of president of the World Bank is not an "appointment" by the American president. The rules of the World Bank are that the United States has the right to nominate the next president and that nominee has to be approved by the World Bank's executive directors.

Bob McNamara, the retiring president, also wanted me to be the nominee and he called on me on the fortieth floor in this building about coming to the World Bank. About this time we were putting the finishing touches on starting the so-called U.S.-Japan Wiseman's group. Peggy, the boys and I took a little vacation and I decided, with the family's concurrence, that if the invitation came back to take the World Bank position, I would do so. If it didn't, I would stay with the Bank of America and so be it. Finally, I went into the corner office with President Carter and Bill Miller, and I said "yes."

First U.S-Japan Wiseman's Council

LaBerge: So you took the job as president of the World Bank. You also agreed to join the U.S.-Japan Wiseman's Council. Was that a brand new group?

Clausen: It was. In the summer of 1980, President Carter asked me to become a member of the first U.S-Japan Wiseman's Council, also called the Wiseman's Group. I said "yes" and President Carter appointed me. The Council was comprised of four U.S. citizens appointed by the President and four Japanese citizens, all in the private sector. It was co-chaired by Ambassador Ushiba, the former Japanese ambassador to the United States and Bob Ingersoll, the former American ambassador to Japan. It had a

high-tech person on each side: Akio Morita of Sony and Edson Spencer of Honeywell. Akio suffered a stroke several years ago and is not well. It had two economists -- on the Japanese side it was Kiichi Saeki of the Nomura Research Institute. And Hugh Patrick, then of Yale, now of Columbia, a distinguished economist of Asian countries and of Japan in particular. His wife is Japanese, a lovely person. Two bankers rounded out the group – Mr. Muramoto, CEO of Dai-Ichi Kangyo Bank Ltd., the largest bank in Japan at the time, and myself from Bank of America. Those were the eight who were to meet for the purpose of identifying what both countries could do, first to identify issues coming over the horizon. The idea was that it's better to anticipate the issues than to have the issues arise and then try to react to them, because by then it might be too late.

Our group was based on the premise that there are no two-country relationships in the world that are more important than that of the United States and Japan. We had trade issues even then, but the relationship between the U.S. and Japan is much, much, broader than just trade and trade imbalance. Other countries wanted Japan and the U.S. to have good relationships too.

The group's mission was also to make recommendations to our governments as to what steps can be taken to avoid or at least reduce the negative impacts and tensions of conflicts in the future. Hopefully we would recommend jointly rather than have the Japanese make recommendations to the U.S. and the U.S. make recommendations to Japan. And we did recommend jointly. We met for a year and a half, and it was a marvelous experience. I learned a lot about how governments work, having never really studied it before. I never worked for the government and I still haven't. I've worked for *governments,* which I think is a lot easier than working for a single government. In the first quarter of 1981, right before Carter passed the baton to Reagan, we delivered our recommendations simultaneously in Washington and Tokyo with three natives and one non-native on each side. I went to Washington for the release and had a press conference. Bob Ingersoll and one of the Japanese were there. I think one of our group, it might have been Hugh Patrick, went to Japan for the release. Our recommendations were published, but they're drawing dust on the shelf, as so many of these things do.

I also participated in what's called the Japan-California Association, a dialogue session, that Rudy Peterson started in, I want to say, 1964.

LaBerge: I remember he talked about that.

Clausen: Rudy and Mr. Awasa of Fuji Bank started the first dialogue session between the private sector of the U.S. and the private sector of Japan. The belief was that by our better understanding the issues, we could become better advisors to our countries. That would be good for business, good for the world, and good for its citizens. I strongly believe that. I've been planting those vineyards ever since.

Bank of America has been in the Pacific for many years. Right after World War II we opened branches in the Philippines, in Tokyo, Yokohama, and Shanghai. So Bank of America has always felt itself a member of the Pacific, California being just on the other side of the big pond, the Pacific.

There was a later U.S.-Japan Wiseman's Council in the middle eighties when I was at the World Bank, of which David Packard was a member. As I understand it that Council was modeled similarly to ours.

Now I'm a member of the Korea-U.S. Wiseman's Council. I say Korea first because the Korean government picks up the tab. I just got back from a meeting a few weeks ago. I'm not a presidential appointee on the U.S. side of this group.

Assessment of President Carter

LaBerge: Looking back, I believe you have some views on Jimmy Carter.

Clausen: I know President Carter and I see him now and then. When he’s out here, I go out of my way to see him, because he did me a good favor. He nominated me to become the president of the World Bank and that was the most stimulating period of my professional life. Not that coming back and helping Bank of America jump out of the hole wasn't also stimulating. That was stimulating in a different way. So I appreciate very much what President Carter did for me.

Jimmy Carter is a brilliant person. He was very quick -- a lot like Sam Stewart, senior vice-chairman of Bank of America. Sam was brilliant, too.

I've had a good many contacts with former President Carter, and to his credit, I’ve come to believe that he is the most presidential of our former presidents. He is far more presidential than any of our other former presidents. I've been saying that for quite a long time. I remember discussing it when Gorbachev was here somewhere around 1990. Dick Rosenberg and I were sitting at a table with Bill Hewlett of Hewlett-Packard and three or four others and we got talking about former

presidents. We all agreed about Jimmy Carter -- he's not running around making speeches at a million dollars a throw, he's devoting his time to resolution of difficulties in developing countries in particular, and he's acting very statesman-like. I've carried that impression in my mind ever since. I have great admiration for Carter. Carter is a better man after being out of the presidency.

[Reference – End tape 4, side A. Begin tape 4, side B]

Being a Republican and Working With a Democratic President

LaBerge: Jimmy Carter was a Democratic president and I know you're a Republican. Did that raise any conflicts in you?

Clausen: If you were to ask me if I've ever voted for a Democratic president, I would say "no." Maybe I'm a Presbyterian because when I was born my mother didn't swap me with the baby next door whose parents were Catholic. There's something to that, but less so on party politics. I have supported a lot of Democratic candidates -- not for the presidency - but good solid people who believed the same way I did or voted on issues the way I wanted them to. For better banking, for stronger and different kinds of competition, for less bureaucracy and so on. Yes, I'm Republican. Yes, I tend to vote Republican. But I'm not a strict Republican. I vote for Democrats as well. I try to vote for the merits of the person. For example, Nancy Pelosi is a Democrat. She's a good friend, and I support Nancy on many things. Dianne Feinstein is a Democrat, but I supported her against Huffington, who's a Republican. I don't want to say anything against Huffington, at least not directly, but Dianne Feinstein is not a carpetbagger. [Laughter] Be sure to put in, "I don't want to say anything against Huffington," when I just did! I resented that he was trying to buy his way in.

On Being a Diabetic

LaBerge: I'd like to hear about your diabetes. I know it can be debilitating, but you don't seem to have let it disrupt your life.

Clausen: I feel fortunate that Peter Forsham was my doctor. He had been a diabetic himself since 1928. Two men -- Dr. Frederick Banting and Charles Best -- created insulin in 1922. Peter said, "Boy, was I lucky." Diabetes means your pancreas stops working to produce insulin, and before their discovery of insulin, diabetics wasted away to certain death. The creation of insulin

gave those of us with diabetes a way to moderate and extend our lives. Peter dedicated himself to advancing medical knowledge about the disease. He became world-renowned in diabetic research and even experimented on himself. He lived with diabetes for about 67 years and only died in November of last year. He was a wonderful, wonderful friend. We had lots of conversations through the years. He first became my doctor in 1968, when I discovered I had diabetes, and he put me on insulin. It's immaterial, but I take four shots a day.

I was talking to a professor at Harvard a couple of years ago, who is an advocate of capturing business history. He said that scholars in the future, even a couple of centuries from now, would have an interest in the fact that I was a diabetic. I talked with Peter about, "When do I step out of the closet? When do I tell the world that I have diabetes and take insulin shots?"

LaBerge: I haven't read this anyplace.

Clausen: I was a closet diabetic until I retired. In 1990, I announced to the world that I was a diabetic when Peggy and I established a distinguished professorship at UCSF [University of California at San Francisco] -- one and a half million dollars --in metabolism and endocrinology. We also gave a million dollars for scholarships in the name of Dr. Peter H. Forsham. Diabetes is still an incurable disease today, and research is needed to overcome that. Diabetics still have to take insulin through injections.

LaBerge: So do you give the injections to yourself?

Clausen: Yes, four a day. When I was a CEO, Helen was the only person in the bank who knew I had diabetes and had to take injections. She was a number one secretary. Helen is honest and terrific, and everyone who knows Helen agrees. In the late seventies, I think it was *Fortune* magazine that was writing a story about secretaries of CEOs, and Helen was picked to be in the story. They complimented her on her great telephone personality and said, "Helen has a wonderful knack for making her boss appear better than he is," which is what she does. She is so efficient she makes her boss look better than he really is. That's the perfect description of Helen. Helen's helped me a lot. She's really part of our family. Helen is a bachelorette.

She's great with my kids too. One of my sons might call and ask, "Helen, when's a good time to talk to Dad? I need to talk to him this week." Helen

would say, “Well, this week is terrible, but maybe on Thursday afternoon I could try to block off some time between two and three.” You can imagine what that conversation's about, right? “I need money.”

LaBerge: So Helen was one of the persons who knew you had diabetes?

Clausen: Yes, but no one else did. When I retired, [UCSF Chancellor] Julius Krevans was after me to chair the capital campaign for UCSF. I didn't want to do it, but Juli is very persuasive and he convinced me. He knew of my association with Peter. I'm not saying that Peter Forsham talked to him about my case. There were a number of doctors close to Peter because he was a renowned diabetician. I think that when he died, he may have been the longest living diabetic on planet Earth. He was a diabetic for about 67 years, from 1928 to 1995. That's a very long time. I was forty-four when I discovered I had diabetes and I'm seventy-three now.

[Reference: End of Tape 17, Side B. Begin Tape 18, Side A]

Clausen: Peter said it would be a very good thing for the disease if the world did know that the CEO of BankAmerica Corporation was a diabetic. BankAmerica was a respected corporation then -- I say facetiously, not seriously -- in spite of my mismanagement. Bank of America was on top of the mountain.

LaBerge: So Chancellor Krevans was trying to convince you to chair the capital campaign?

Clausen: Yes, and meanwhile Dr. Forsham was saying that it would be beneficial to others to know that the CEO of a major corporation like Bank of America could have diabetes and still be a personal success. As to when to disclose it, he said, “You'll know the time.” I did not want people to feel sorry for me then, and I still don’t. I don't consider myself ill at all. I can move with the best of them.

LaBerge: It must have been hard for you to either lead meetings or do other business functions because you still have to get your insulin or orange juice sometimes when you really need it.

Clausen: I always have candy in my pocket [shows candy].

LaBerge: Oh, that's good.

Clausen: I can manage my diabetes pretty much unobserved. We might be sitting here talking and I just reach into my pocket and take out my candy. Out of politeness, I ask, “Can I offer you one?” And I take mine. So I'm never without it. I keep my blood test scanner with me. My driver also has diabetes -- for two and a half years. He's wonderful. His name is Ron Green. He's black and weighs maybe 325. More than he should. And he's diabetic. We talk about a lot of things in the car, because I look on the car as part of the office.

I decided to declare to the world that I was a diabetic by giving a million and a half dollars for the distinguished professorship for the disease at UCSF and then for the scholarships in the name of Peter Forsham. Peter had been head of the metabolic research laboratory at UCSF for fifteen years and John Baxter has that role now.

I took the job as head of the capital campaign. And I’ll tell you more about that when we get to that point.

Playing to One’s Strengths

LaBerge: [Laughter] Well, we started down this line because you refused the Federal Reserve job, and you refused it partly because you had diabetes.

Clausen: That's one of the reasons, yes.

LaBerge: Don't you think your other jobs have been stressful?

Clausen: Sure, but in a different way. I made the right decision. Say you're a good baseball player, and somebody wants you to go play tennis. You know you're a good athlete, but if you’re smart, you know that being good in one sport doesn’t necessarily translate to another sport. It’s the same in business and organizations. They usually have very different environments. That's still my feeling.

To this point, looking back on my time in Washington, I'm not sure that being the president of the World Bank was my cup of tea. I don’t think it played to my strengths. I do think I was right for BankAmerica Corporation. In fact, I think I've been very good for Bank of America. I was comfortable in the job of being CEO of *this* financial institution. While my record may not have been perfect, I would defy anybody to say I have not been successful in managing BankAmerica Corporation.

LaBerge: The facts wouldn't support it.

Clausen: The facts would not support it. The facts support that I was very good for Bank of America. The World Bank is a different matter. The job did not play to my strengths. And out of that experience, I'm now saying to young people in the MBA program at the Haas school that they have to play to their strengths. I give one lecture a year to William Coblentz' class (I always want to call him Billy because I've known him forever), and I did it earlier this year. I talk to them on how to deal with issues when a corporation is in distress. I've had experience on that which I think is worth telling and writing about.

[End of Tape 18, Side A]

Could Mr. Clausen Have Avoided Bank of America's Troubles in the 1980s?

LaBerge: After you left Bank of America for the World Bank, were you wondering if Bank of America still would have gotten in trouble if you had stayed?

Clausen: Yes, I've pondered that question a lot. When I left, Bank of America was on top of the mountain. A lot of factors caused things to start falling apart after that. This is an important subject and I would like you to put this in. I've asked myself many times, "Had I stayed with Bank of America and not gone to Washington, would Bank of America have suffered the problems that it did?" You'll remember that in the early eighties, the bottom-line performance of the corporation every year was worse than the immediate preceding year. It was all downhill. In 1980, my last full year, the bank posted $643 million in net income. In 1981, it dropped to $445 million. By 1983, it lowered to $390 million. In 1984, it was $345 million and then in 1985 it dropped to a *loss* of $337 million. The record speaks for itself. In 1986, the year I returned we had to post a net loss of $518 million.

My arrogance gets in the way of my judgment a lot, but I think I could have averted the lousy performance. Germaine, way back when we started these discussions I told you my mother taught me to always make sure that my income exceeds my expenses. And how do you that? Well, if you can't increase your income, you can control your expenses. You can easily see if your expenses are too high. Managing a business is nothing more than common sense. Those who know me, including my wife and sons, get sick of hearing that. They kind of team up on me. We'll be all together having dinner at home, and I'll say, "Let's use our common sense." They'll say, "There he goes again!" But I believe that. Life is nothing more than common sense. And business is nothing more than common sense.

Operating profitably is nothing more than common sense. So in essence, I can't conceive that I wouldn't have done something…

LaBerge: The first time there was a loss.

Clausen: Even at the first signs of declining profits. It's was my experience for the eleven and a half or twelve years I was here that each and every year we had an unbroken chain of profit increases. When Rudy left, there was about $100 million profit. When I left it, it was $643 million. When Rudy left, it was $25 or $26 billion in size; when I left, it was $115 billion. Every year it would be better as profits would go up. The last complete year I was here, 1980, we had a record year, $643 million net after taxes. But looking ahead, I saw a flattening out, a plateauing of earnings, and when the board met in February 1981 to vote for a dividend increase, I did not support it. And one of the directors, a pretty good one who's since passed on, said, "How can you not recommend a dividend increase when you've just brought in the best year in Bank of America's history?" I said, "I see some storm clouds in 1981, and so therefore management is not recommending a dividend increase." Nevertheless, he recommended that we go from $1.48 in annual dividends -- you divide by four for the quarterly dividends -- and increase the quarterly dividend by one cent, which meant $1.52 annual dividends. I did not vote for it. I said, "Why are we doing this now? We've got the rest of the year to see how things develop. This is only February. You could do it in May, you could do it in August, and you could do it anytime between now and the end of the year. Let's see how the year shapes up. I see some storm clouds gathering."

Historians ought to note -- I think that's the only time that a dividend increase has been made by either Bank of America NT&SA or by BankAmerica Corporation (which in 1968 or '69 became the owner of Bank of America NT&SA, which no longer had individual shareholders) that there's been a dividend increase without the CEO being in favor of it or recommending it to the board. And I did not recommend it. Maybe it says something, subliminally or otherwise, about being a lame duck. The board had known since the prior November or December that I was going to leave Bank of America to be the next president of the World Bank. Therefore I was a lame duck. So they could go against the wishes of the CEO because he wasn't going to be around to deal with them in the long term. I'm saying it's kind of interesting to speculate about that.

No one could deny that 1980 was the best year in our history. The record speaks for itself. Not on dividends, but on earnings per share. And it

wasn't until maybe the last two or three years of Rosenberg's administration that I still had the best per-share earnings.

LaBerge: So you think you could have headed off the major train-wreck that Bank of America got into?

Clausen: Putting aside my arrogance, I do.

VI. President of the World Bank, 1981-1986

LaBerge: It must have been a big change and challenge for you to shift from a commercial bank to a public entity like the World Bank. What did you do to get yourself fully "in the saddle," so to speak?

Clausen: Well, a not insignificant action was to bring my own secretary, Helen Higgins, with me into the office of the president. When President Jimmy Carter wanted to get me into the World Bank, Bill Miller, then the Secretary of the Treasury, told me, "You need your own confidential secretary. The secretary there now may not be a confidential secretary. After ten years being secretary to Bob McNamara, her allegiance might be to McNamara, even though he's gone. So you've got to have your own." I asked, "Is it all right then if I bring a secretary in from the outside?" Naturally I was thinking of Helen. I don't know what I would have done if they had said, "No, you can't." I first patched that up with McNamara. And then I brought her in. In the person of Helen Higgins, I have an absolutely confidential secretary, and I trust her with everything. She knows everything, both here and at the World Bank.

LaBerge: When you took over, how did you communicate your own sense of direction to the World Bank management?

Clausen: I used the occasion of the annual shareholders' meeting during the Board of Governors meeting as the platform to begin to lay out my views on what needed to be done. That was in September 1981. It was my maiden address – my inaugural speech, if you will. I made several recommendations. I haven't thought of that speech in a long time. I told everyone what I wanted to focus on and what I wanted to do. Have you read my World Bank speeches?

LaBerge: No. Would they be in the Archives?

Clausen: They're in a book of speeches, and I'll give it to you.

LaBerge: I haven't seen them.

Clausen: I'll try to find the book. At least you ought to read some of those speeches. I recall two important things I said: there ought to be an international code for investments like GATT for trade. We're still working on that, but we still don't have it. The U.N. tried it. I think Rudy Peterson participated in that discussion in the late seventies or early eighties. There was a regional one in the Pacific. PBEC [the Pacific Basin Economic Council] had a code

of rules for investment in Asia. The OECD [Organization for Economic Co-operation and Development] has tried. I told the World Bank management team that there ought to be a code for international investments. I'm sorry you can't hear my speech. The thing that's wrong with reading a speech is you don't get all the nuances. The audience can tell a lot from the tone of your voice. And I was sincere in that I really meant it as an indication, as a promise, that I was going to work on that. I believed that the World Bank ought to take a leading role in developing that.

And the other need I spoke about was that there ought to be a multilateral insurance entity. I introduced that idea in September 1981.

LaBerge: And you made it happen, didn't you?

Clausen: Yes, we did. We called it MIGA, which stood for the Multilateral Investment Guarantee Agency. It became one of the five institutions comprising the World Bank group. The others are IBRD [the International Bank for Research and Development, IDA [the International Development Association], IFC [the International Finance Corporation] and ICSID [the International Centre for the Settlement of Investment Disputes]. You never heard of the last one?

LaBerge: No, I didn't.

Clausen: The International Center for Settlement of Investment Disputes, which I'm still an advisor to, is a legal entity to resolve legal disputes between countries.

So in that first major speech I put forward the idea that became the Multilateral Investment Guarantee Agency. The word "Guarantee" could as easily have been "Insurance." The idea was the same. And I then hired a person to make it happen.

LaBerge: Which was who?

Clausen: Ibrahim Shihata

[Reference: End of Tape 20, Side A. Begin Tape 20, Side B]

Clausen: I told you that in my inaugural address to the governors of the World Bank in September 1981, I had recommended that the World Bank should set up

a multi-government-owned insurance agency in order to make it possible for more countries to receive investments from the more affluent countries. It would be an entity like the U.S. entity called OPIC [Overseas Private Investment Corporation]. There were only about twenty countries in the world that had their own indigenous insurance or guaranty agencies giving investors protection against expropriation, acts of God, and non-commercial risks. So I believed that most countries and all developing countries could use such a guaranty mechanism to ensure investors.

I had explored this with George Shultz before I came to the World Bank, and he encouraged me with introducing the idea in my inaugural address to the governors of the World Bank a few weeks after that. So when I began looking for a new general counsel, I had in mind the need to carry out my vision of creating this insurance entity in the World Bank.

Ibrahim Shihata

Clausen: Out of the process of asking for recommendations for candidates to replace the general counsel, the name Ibrahim Shihata came to my attention. At the time, Ibrahim was the chief executive of a development institution headquartered in Vienna, Austria, that was owned and funded by Arab nations: Saudi Arabia, Kuwait, Egypt, Iraq, Iran, Jordan, Sudan, Algeria, Morocco -- that's 80 percent of the countries. Ibrahim was a lawyer who had graduated from Harvard Law School, second in his class. Before he accepted the job of being chief executive of the development group, he had set up a multilateral insurance or guaranty agency as the general counsel for the Bank of Kuwait.

LaBerge: What country is he from?

Clausen: Ibrahim Shihata is an Egyptian. He has an Egyptian passport.

LaBerge: Was that a consideration when you were hiring? Trying to balance the nationalities?

Clausen: Well, yes, because affirmative action in the World Bank is far different and much more complicated than affirmative action as we know it in the United States. Perhaps I should say “as we *knew* it in the United States” because those nuances could become law by the time this gets into the Bancroft Library.

I was not looking for an Egyptian. I was looking for the most outstanding international lawyer that I could find. But it was a plus that he was not

U.S. or British. Not that I'm against U.S. or British. What I *am* for is having only the best people in the key spots at the World Bank. But I was also for diversifying our employees as much as we possibly could, given the fact that our owners then came from 158 countries. On all scores Ibrahim seemed ideal.

After Shihata's name came up, I went to Lloyd Cutler and asked him to make a search as well. Lloyd Cutler had identified the availability of George Coombe to me in the middle seventies when I was the CEO of BankAmerica Corporation. I brought George on as the general counsel of BankAmerica Corporation and Bank of America NT&SA, and he was an outstanding general counsel. So I had a lot of confidence in Lloyd Cutler and his advice.

Lloyd's law firm gave me a stack of articles two or three inches thick that had been written by Shihata, and I spent one full weekend reading them. He had experience in setting up a multinational insurance guarantee organization and had been the general counsel to the Kuwait Development Fund. So that just enhanced my interest. He came highly recommended by everyone. I could see only one weakness. In some of the writings, I thought I could see some leanings toward the PLO view. Nevertheless, his brilliance and background was exceptional.

Then I talked with him on the phone and told him I'd like to meet him in person and discuss the possibility of coming to work for the World Bank as our general counsel. And yes, he was interested in the job. Since I was going to be attending a conference of the Tidewater Group in Canada, he agreed to accommodate my schedule and he came to Canada with his wife, Samia.

So I met and visited with both Ibrahim and Samia together. I spent a couple of hours with them and I was very impressed. They're a wonderful couple. Over time, I came to feel that I would trust Ibrahim with my life.

At that moment, Ibrahim was making more money as the president of the Arab development bank in Vienna and he wanted to think about my offer. He called me in a few days and said that he and Samia were looking forward to coming to Washington to live and to be our general counsel.

So to make a long story short, Ibrahim came to the World Bank where he was welcomed, and I personally introduced him to the senior officers in the bank.

Beryl Sprinkle and the U.S. Treasury Department

LaBerge: Beryl Sprinkel entered into the issue of hiring Ibrahim Shihata, didn't he? Can you tell me more about that?

Clausen: Before I selected Shihata, I did not advise the U.S. Treasury Department or ask the United States of America, nor did I go to France, the U.K., or Japan, or any other of the then 158 countries that owned the World Bank, to ask whom they would recommend. I simply searched for the best candidate and hired him. But then when I advised the Treasury Department that I had replaced Golsong with Ibrahim Shihata, an Egyptian, the people at Treasury were really upset, and Beryl Sprinkel called me over to Treasury to chew me out.

LaBerge: What was Sprinkel's title then?

Clausen: Beryl Sprinkel was the Assistant Secretary of the Treasury for International Affairs. Tim McNamar was the Deputy Secretary of the Treasury, and Don Regan was the Secretary of the Treasury. Beryl was offended over the selection and also was offended and upset that I hadn't "Checkpoint Charlie-ed" with him. He really chewed me out. He claimed that Ibrahim Shihata was pro-PLO. By way of background, the PLO issue had been a big issue when I went to the World Bank. The PLO, represented by Arafat, wanted to become an observer and participate in the annual meetings and the development committee meetings of the World Bank and the International Monetary Fund. But the members and owners of the bank and the Fund did not want that to happen.

When McNamara was the president, he had made the mistake of entering the fray over PLO membership in such a way that the Arab nations were offended. They were holding the World Bank hostage over the PLO issue, and they were denying the World Bank access to borrowing funds from SAMA – the Saudi Arabia Monetary Agency -- and Kuwaiti dinars from Kuwait, the principal emirates, and other Arab entities.

It's clearly not the role of the World Bank management team to enter into whether the PLO should be a member of the World Bank or not. That's the member governments' role. And that's the way I played it -- it's up to the governments. I'll tell you more about that in a moment.

And when Beryl Sprinkel charged that Shihata was nothing more than an Arab who was pro-PLO, I knew first-hand that that was not a fact. Shihata

had expressed some empathy, but he had a very balanced view. I had done my homework and I told Beryl immediately that he had been misinformed.

I got so angry at Beryl that I went to George Shultz, who then was Secretary of State and I told him about it. George had formerly been with Bechtel, and knowing that Bechtel had done a lot of work in Arab nations, I asked if he could check with the general counsel at Bechtel to give me a rundown on Shihata. George called me a week later and said, "He's terrific." Yes, Shihata had leaned into the PLO issue the wrong way a time or two, but that was definitely not his orientation.

Sprinkel's uninformed criticism and implied demand to be in on decisions had really rankled me. My approach to managing the responsibilities I had been given was always to do the job in the best way I knew how within my authority, and to simply keep the board informed of what I was doing. That's the way I handled filling the position of general counsel. I simply hired Shihata within the rules of the World Bank.

Counseling Shihata

I told you I noticed there was a bit of PLO empathy in Shihata's writings. But because the PLO and Arafat were hot issues, when I actually brought Shihata on board, I counseled him: "Your reference point now should not be the Arab nations or Kuwait. It should not be the Arab development bank you used to head. Your reference point now has to be what's good for the world, and what's good for the World Bank in helping the world. When you talk to the executive directors of the World Bank, use *that* as your reference point." Shihata turned out to be an outstanding hire.

This issue of "what is your reference point?" came up just recently here at Bank of America when they hired a new guy in government relations who had worked for Citibank. Bank of America and Citibank had been positive competitors and Citibank has done and does things we don't do. When this young guy first came, he was always saying "Citibank, Citibank, Citibank." I counseled him, "Don't do that; it's not good for your career." And I explained a little bit about the competition and the reaction he was getting.

. John Reed, the head of Citibank, was a good friend. We don't pal around, but I think John has done a good job. He's made some changes perhaps later than he should have, but people say the same thing about Bank of America – that the company could have avoided its problems by some

simple steps. And I agree with that. I shouldn't have had to come back here; I should have been long gone.

Rebuilding Working Relationships with Arab Countries

LaBerge: You talked about the Arab members of the World Bank taking a stand over the PLO issue. How did you resolve that?

Clausen: I removed the bank from being held hostage to accessing money markets over the PLO issue. I convinced the Arab countries that I felt very strongly that it's none of the World Bank's business. We have an interest in the issue but it's up to the governments and the owners of the World Bank to make that decision and not the bank's management. I also leaned on the friendship of Abdul Atif al-Hamad, who at one time was the Tom Clausen, the Bob McNamara of the Kuwait Development Fund. He was a close friend of mine from my Bank of America days, since Bank of America had investments in Kuwait and partnerships with Kuwaiti entities.

So I had help from Abdul Atif al-Hamad of Kuwait and Sheik Mohammed, the Minister of Finance of Saudi Arabia, whom I got to know. So somewhere around my second year at the World Bank, we were able to arrange for the World Bank to borrow something in the neighborhood of $900 million from the Arab world. That broke down to perhaps $150 million from Kuwait and the [United Arab] Emirates, and maybe $700 million from SAMA, the Saudi Arabia Monetary Agency.

Shihata Brings MIGA to Life

LaBerge: So despite the opposition you faced in hiring Shihata, he turned out to be the key to bringing MIGA to life.

Clausen: He's the one who made MIGA happen. He really delivered on MIGA. He got it approved by governments, negotiated the protocol and all the terms, and he did a fine job managing the legal staff of the World Bank.

LaBerge: Did Shihata get MIGA up and running right away?

Clausen: I thought it could be done in two years. It really took five years. Actually, they cut the ribbon on MIGA about six months after I left the World Bank in 1986. It might have been that fall. They invited me back when it was announced, "the baby's been born." Enough governments had signed up for it, and others were in the process. It was formally established in 1988. I want to say maybe 140 countries have signed on to the Multilateral

Investment Guarantee Agency, which insures against losses caused by noncommercial risks. So if somebody makes an investment in country X, and the investment in country X is destroyed, expropriated, or confiscated by government action, there's compensation. You buy insurance so your investment is protected. If it's an act of God, a flood, a tornado or whatever, then no, it's not covered by MIGA. If it fails for mismanagement, that's a commercial risk. But it protects against all other events of destruction including currency inconvertibility, war, and civil disturbances. So that makes the possibility of investment in developing countries more likely if you've got a little protection. And that's the whole thrust of MIGA. I did it in the spirit that developing countries need investment, so what can we do to remove some of the obstacles and make that happen more?

I think there were about twenty or twenty-five individual countries that had their own indigenous entities that insured against these risks -- OPIC in the United States is the biggest -- OPIC stands for Overseas Private Investment Corporation. It's U.S. government-owned, and because it charges market-based fees for its products, it is self-sustaining. They've got a similar one in Great Britain, they've got one in France, but they don't have one in…

LaBerge: … less developed countries?

Clausen: Yes, let's say Upper Volta or Rwanda. MIGA does not compete with OPIC in the U.S. or the Guaranty Insurance Agency of Germany or France or the twenty-five or so countries that have their own entities. MIGA fills in the chinks for the 150 or 175 countries that don't have any insurance, and therefore it helps those countries a great deal.

[Reference: End of Tape 18, Side B. Begin Tape 19, Side A]

MIGA also makes money, as it should. It’s really an insurance company, but internationally “guarantee” is a better word. An insurance company insures against risks, and it has to be strong enough and make money so it can stay in business. So should this entity. The board of directors took a lot of convincing on this concept, and its success is due to the patience, skill, and brilliance of Ibrahim Shihata. Yes, it was my idea -- I introduced it and supported it. But Ibrahim brought it to life.

Increasing Country Representation on Management Team

Clausen: In recruiting Ibrahim, I was also looking for someone to help widen the country representation on the senior management team of the World Bank. You can't have them all from the U.S., the U.K., and Germany. You've got to think in terms of diversification in a different way than we do here in large corporations in the United States. Here you think of gender, you think of Spanish-speaking, you think of black, you think of Oriental, Native Americans, and a few other factors. But in the World Bank you have to make sure the world is represented. You get pressure from shareholders.

World Bank Structure and Shareholders

LaBerge: Who are the shareholders of the World Bank?

Clausen: One hundred and fifty-two countries. The number of shares a country has is based roughly on the size of its economy. The U.S. is the largest, and the vote is by weight -- unlike the vote in the United Nations Security Council where each member has one vote regardless of the GDP [gross domestic product] or the economic force behind each country's vote. The Security Council has how many members?

LaBerge: I believe the Council has 15 members, and those votes are equal.

Clausen: And in the United Nations, a smaller country can offset the vote of the United States, which has the largest economy in the world. But in the World Bank, the votes are weighted. So when the World Bank votes and its executive directors vote, their vote is proportional to their economic size in the world. When I was at the World Bank, there were twenty-three executive directors. I think it's grown since I left, which reflects changes in national boundaries. For example, the Soviet Union as an entity is gone – it wasn’t a member when I was there – but the fifteen republics that used to comprise it are now all members of the World Bank. Each of them has a proportional vote. Of countries that used to be part of the old Soviet Union, Russia is now the biggest of the fifteen republics. The Ukraine is second largest. Their weight would clearly offset by several factors the weight of Lithuania or the three Baltic republics that used to be in the Soviet Union. So that’s how it works in the World Bank.

There are only a handful of specialized institutions in the world where it's the weight of the vote that counts and not the number of countries that

vote. That includes the IMF and the five entities of the World Bank -- IBRD, IFC, IDA, ICSID, and now MIGA.

As to management of the World Bank, each of these five is an entity in itself, but they're managed under the umbrella of the president of the World Bank. The president of the World Bank is the chief executive officer of the World Bank.

As president, I spent most of my time in IBRD and IDA. They are kind of the same but they have different boards of directors, because there are perhaps 178 countries that own IBRD while there might only be 170 countries that own IDA. IDA is for the poorest of the poor countries. IFC is a smaller group, and MIGA is smaller still.

The Secretary of the World Bank was Timothy Thahane, who is from Lesotho. The aunt of my daughter-in-law used to be a missionary in Lesotho. It's an all-black country and I think missionaries still live there. My daughter-in-law has been to Lesotho; I never have.

LaBerge: Is Thahane the President of the World Bank now or the Secretary?

Clausen: No, the President of the World Bank now is James Wolfensohn. Thahane was the Secretary when I was there. Something tells me Tim Thahane is no longer the Secretary.

Helen: That's right. He's gone back to Lesotho.

Clausen: Yes. He ran to become the President of the African Development Bank when the shareholders found the existing president wanting and fired him. But Thahane got the same number of votes as somebody else. It was a political game, like Congress -- you scratch my back for this, and I'll support you on something else. It has nothing to do with the issue. I have a lot of respect for Thahane and his wife Edith; we were close friends. Splendid people, both of them.

Concern for Sub-Saharan Africa

LaBerge: You've spoken about your concern for Sub-Saharan Africa. Did it come from your World Bank experience?

Clausen: Well, I've always had that concern. You remember my telling you about my upbringing in Hamilton, Illinois, and a black man named Gubber White who lived nearby. Gubber was poor and he would cut the grass in

our yard during the summer and do other odd jobs. I loved Gubber White when I was a kid. And at Christmastime my mother and some of her friends and the church would provide baskets of food and clothing to Gubber's family. So I became aware, through my parents and the church, of the necessity of helping others who are disadvantaged. And I also learned the satisfaction that one gets in helping disadvantaged people.

When I went on to college, I had interesting discussions and arguments with my classmates about human motivations. If you're walking along a lake and you see somebody drowning, what's your motivation for jumping in to save the person? Do you do it because it's a constructive act, because you want to help? Or do you do it because you think, "If I don't, I'll be miserable with myself for the rest of my life." I've not thought about this for a long time. Is there any act that it truly selfless? I lived with some pre-ministerial students and I was the only non-Lutheran among them, and I would argue just for the hell of it. It's wonderful for me to think back on those immature discussions. Smart people, but we were mostly in our teens with the oldest maybe twenty-one.

But out of all that I had a great interest in wanting to do something for the world. And inside myself I was challenged by the idea -- could I translate what I had learned in the private sector to the public sector, and do it in a helpful way?

And too, I was raised in the philosophy of the United Way and I worked in the United Way vineyards. I still do, but not as much. I could have become the president of the United Way of America -- I was offered that position back in the seventies.

LaBerge: When you were still CEO at Bank of America?

Clausen: Yes, and I would have been tempted, too. I was on the executive committee. But United Way wasn't headquartered here in California. Otherwise, who knows?

[Reference: Begin Tape 20, Side A]

<u>Management Committee of the World Bank</u>

LaBerge: There wasn't a management committee at the World Bank before you arrived?

Clausen: There wasn't anything there. In Martijn Paijmans's words, it was "like on a ship, without a steering wheel." There was no coherent way to make intelligent decisions on whether we wanted to emphasize an activity like family planning and increase our investments in population control, or move the emphasis of the bank to the left or right. That's why I introduced the concept and function of the Management Committee.

We had to take three or four months to build the infrastructure in the World Bank. McNamara had been with the bank for thirteen years and it was a very small bank when he became the president. He knew where everything was, and he called all the shots. I felt that it would be fairer and would end in improving the quality of judgments if we brought in the Bank of America managerial approach. That's the collegial approach, a sharing approach -- getting the heads of all the functions of the bank together in the form of seven or eight members and putting an issue on the table and getting a collegial judgment. My experience was that this would improve the quality of the decisions and then improve communications about the decision because it could be done immediately through these management committee members.

LaBerge: Who else was on your management committee besides Martijn Paijmans?

Clausen: The management committee of the World Bank was a group of the seven or eight key officers of the bank, each one of whom had jurisdiction over an important function of the bank: personnel, operations, finance, economics, the secretary of the executive board and of the bank, public and government relations, I think there's one more I can't recall.

LaBerge: Well, we didn't say legal…

Clausen: And the legal function as represented by the general counsel. The Management Committee met weekly, usually on a Monday morning, to share the important events that were happening and to make decisions as to the overall management of the World Bank and its affiliates.

Secretary of the Treasury Donald Regan and Hungary

LaBerge: Did Secretary of the Treasury Donald Regan get involved in your work at the World Bank? Did you have any dealings with him?

Clausen: Oh, I had a lot of dealings with Don. The United States had supported the position that Hungary should become a member of the International Monetary Fund and of the World Bank. And so Hungary had become part

owner of the World Bank. And that had happened just the year before, shortly before I became the president. To tell you about Regan and Hungary, I'll need to diverge a bit to give you some background on how the World Bank works. Okay?

LaBerge: Fire away.

Clausen: The first thing the World Bank had to do with Hungary, as it had to do with all its member countries, was to determine the GDP per capita per annum of the country. It had to make that determination on the same basis, the same syllogism, the same factors, for each of the member countries, so the results were comparable and uniform. We determined that the per capita GDP of the United States, for example, was about $29,000 but that the GDP of Guinea-Bissau, per capita, was $200 U.S. dollars. And the numbers were comparable, which was enormously helpful in avoiding having to shift gears when you're looking at one as compared to the other.

So Anne Krueger, the chief economist, and her compatriots in the economics department computed the GDP per capita of Hungary. Now depending on a country's GDP, it can structure loans from the World Bank in different ways. Here I've got to really call on my memory and give you just some ballpark numbers. If your GDP per capita was less than, say, approximately $500 or maybe $550, then you could borrow from IDA. This would be a no interest, forty years maturity, ten-year moratorium loan amortized over the next thirty years. Forty years afterward it had to be paid in full -- for no interest rate, but just a fee of half of one percent on the unpaid balance. If your GDP per capita was above say $550 or thereabouts then it had to borrow not from IDA but from IBRD. And IBRD's loans were maturities of twenty years, and for those countries with a higher economic level, maybe fifteen to twenty years, at market rates and, say, a three- to five-year moratorium. If you had a twenty-year maturity, maybe it had the first five years with no payments, just interest only. And then it was amortized over the remaining life. The structure of the loan would depend on what kind of a project it was, how fast the project would be completed, how the proceeds of that borrowing were used, and how fast that project was estimated to create wealth in the country, in essence and in theory, to provide the wherewithal to repay the loan. The proceeds were to go into financing the cost of the project.

And Hungary was eligible to borrow from IBRD. I think the threshold for borrowing from IBRD was like $2,200 at the time. Hungary, I want to say was in the ballpark of $2,300. It was clearly eligible.

Our proposed financing of every single project in the World Bank -- either by IBRD, IDA or IFC, for that matter -- had to go to the executive directors for review, no matter how big or how small a borrowing a country was making. So each country had a staff back in the home office of the country -- in London, in Bonn, in Paris, in Washington, D.C., in Tokyo, in capitals around the world – to work on these proposals, and countries were also represented directly on the executive board, which at the time had twenty-three executive directors. So everyone could see what was being presented to the board, and the bank could not do anything until it had been discussed and approved by the executive directors. It's called the bureaucracy.

LaBerge: So each of the twenty-three goes back to their staff at home…

Clausen: It would depend. At the time, only six countries were each represented by an executive director dedicated solely to that country– the United States, Japan, Germany, the U.K., and France. China came in right in 1980, and only one loan had been made to China by the time I became the president July 1, 1981. So China was the sixth country represented by one executive director. And then later, as a result of Saudi Arabia making special loans available to the International Monetary Fund, the IMF and the World Bank granted Saudi Arabia its own direct executive director. So we had seven countries that had their own representative.

But some of the executive directors represented *twenty-nine* countries. So that executive director, in theory, had to go back to twenty-nine countries to get their view.

LaBerge: That's a lot of bureaucracy.

Clausen: That's right. So much so that it just angered me when they created EBRD in 1991, the European Bank for Reconstruction and Development. It was built on the same model of IBRD – with live-in executive directors and the same kind of hands-on bureaucracy -- rather than meeting quarterly or less frequently to review how management was carrying out the directions the board had agreed on.

Okay, that’s some of the background for the rest of the story.

LaBerge: The story of Hungary.

Clausen: The story of Hungary. Well, when I brought Hungary to the board as a potential borrower, Treasury Secretary Don Regan contended that

Hungary was not eligible to borrow from IBRD and he accused me of being a troublemaker. I deduced that Regan was fearful of running awry with Congress -- because Hungary was Communist, and therefore why are we helping a Communist country?

But I refused to budge! I answered that the rules are clear and the process that the World Bank economists use to determine eligibility has integrity. And therefore Hungary was indeed eligible. When it came to the board for discussion and vote, the United States argued again that Hungary wasn't eligible. But my argument was, here's a Communist country that wants to lessen its ties to Communism and extend its right hand to Adam Smith and to the market system, and it was interested in the World Bank helping it to do that. I admitted and agreed, and still do, that the World Bank should be an economic institution and not a political one. But embracing Hungary's request made good sense based on pure economics, plus the fact that we would be helping this country adopt what most of the countries in the world – that is, most of the members of the World Bank -- wanted, which was to help Hungary put into place a market system.

I called George Shultz at the State Department and said, "I need to talk to you." George took me to lunch. He was used to the U.S. government bureaucracy, so he held my hand and told me to hang in there and go ahead. So I did, and I felt much better. It was also a good lunch.

LaBerge: [Laughs]

Clausen: Just the two of us in the State Department.

Candid Advice from James Burnham, U.S. Executive Director

When I came to the World Bank, one of the executive directors was James B. Burnham, a good economist. He was associated with one of the chairmen of the Council of Economic Advisors and he also worked for Mellon Bank in Pittsburgh. He became the U.S. executive director of the World Bank when I was president. One day he came in to deliver to me the message of the U.S. government, which again held a view I disagreed with. He did his job, but as he was leaving the office, he stopped and said, "Tom, I would deny I ever said this, and don't you quote me, but if I were you, I would ignore this. If I were in your shoes, I would do what you're doing." I had liked him before and I liked him even more after. He had a lovely wife and they were a great couple. I still hear from him now and then. I respect him a lot. He was smart and he knew how to deliver the

message of the government, even though he disagreed with it. And he was candid.

Looking for a New Chief Economist

Did I tell you the story of Anne Krueger?

LaBerge: No.

Clausen: Did I tell you about Sir Arthur Lewis, the Nobel Laureate development economist in Jamaica?

LaBerge: Not him either.

Clausen: Okay, now I'll get to both. This is important in the history of the interplay between the U.S. government and me in my role at the World Bank. Before I went to the World Bank and was still CEO of Bank of America, Bob McNamara had submitted his resignation to retire on June 30, 1981. In late 1980, the world became aware that the United States had nominated me to become the president of the World Bank and its four affiliates -- IBRD, IDA, IFC, and ICSID. The executive directors met in early 1981 and appointed me as of July 1. Now, the chief economist for the World Bank at this time was Hollis Chenery, a development economist of note, and he'd been the chief economist for a number of years. But Chenery had come from Harvard and now he wanted to go back to Harvard.

Somewhere in the spring of 1981, Bob Bartley, the editor of the *Wall Street Journal*, published an editorial claiming that McNamara was trying to pack the World Bank like Roosevelt did the courts in the thirties. Bartley accused McNamara of making the most important appointments in the World Bank before Clausen arrived and asserted that he particularly wanted to appoint a development economist who was then at Berkeley. The *Journal* was yelling "Foul!"

When that appeared, Bob called me and asked, "Would you like to review my decision about who I want to appoint? I said, "Bob, I can't. I'm still running a small country bank out here on the West Coast, and you're running that bank, and I shouldn't get the two of them mixed up. You're the president. You do what you think you have to. But that *is* a key spot, and if it could wait, I *would* like to have some say-so in it. But I know that Hollis wants to go back to Harvard, and if you've got to move early, then go ahead."

Well, Hollis didn't go back right away. He stayed on for a while at the World Bank. And then it came time for me to select a replacement. So I went to Sir Arthur Lewis, a Jamaican development economist in his seventies with a world reputation. I told him, “Sir Arthur, I am not suggesting that I would like you to take this position. What I’d like is for you to get a couple of other development economists and give me the names of the best development economists in the world, ones whom I should consider as candidates for this position. My criterion for ‘the best’ is that each has the potential to become a Nobel Laureate.” Sir Arthur agreed. He flew from Jamaica to Washington, and I had lunch with him.

[Reference: End of Tape 20, Side B. Begin Tape 21, Side A]

LaBerge: So Sir Arthur took on the task of giving you viable candidates.

Clausen: Yes. He gave me nine names, as I recall. I said, “I can't deal with nine. That's too many. But I don't want just one.” So he reduced the list and gave me four names. As I recall, there was one from Latin America, two from Europe, and one from the United States. I looked at them all.

Anne Krueger

One of the four candidates was Anne Krueger. Anne was in the East, and she flew in. Ernie Stern knew her, but I didn't. He picked her up from the hotel and brought her to our house in Washington. Peggy and I had dinner with her at home, just the three of us -- Peggy being the cook -- at the small table in our dining room. I liked Anne immediately; she was very bright. I knew her background from her résumé and I had read some of her writings, so I was acquainted with her thinking and development philosophies. She had worldwide experience – in Europe, Turkey, Latin America, and a lot of experience in Asia. She was well versed in and knowledgeable about India. At the time, Anne was a tenured professor at the University of Minnesota. She was married to Jim Henderson, who was also an economist.

Anne had global recognition and a rising reputation. And, according to Sir Arthur Lewis, she did have the potential to become a Nobel Laureate. I liked her so much I offered her the position.

Anne wanted to talk to Jim. At the time, both Harvard and Stanford were trying to get her to join them. But she called me in a couple of days and said that yes, she would accept. Several things interested her about the

position. One was the challenge of the job. Another was that she liked participating in managerial decisions. I had told her she would become a member of the Management Committee that met periodically, and she would have a voice in the bank's overall direction and priorities and some influence on its finance, development, and personnel policies, et cetera.

Treasury is Upset Again

Clausen: Although I remembered Treasury's reaction when I hired Ibrahim, I did not go to Treasury and ask for "guidance" on who they wanted me to hire to be the bank's chief economist. I simply hired Anne. The people at Treasury knew the chief economist position was opening up, because I made the World Bank executive directors aware that we were looking for a new chief economist since Hollis Chenery wanted to go back to Harvard. But I did not talk specifically to the executive director for the U.S., James Burnham.

But McNamar, Sprinkel, and Don Regan wanted to have a say in choosing the chief economist for the World Bank, because that's an important post. It influences development philosophy, theories, and all of that. Also, they wanted to pick political friends for positions like this. Nevertheless, I wanted to make my own non-political judgment. I think the World Bank ought to be independent, just like I think the Federal Reserve Bank ought to be independent. They never are, and that's the part of Washington that I don't like. I am too stubborn and independent to fit in the Washington crowd. I didn't fit then , and I still don't.

They were terribly upset with me for making the selection without their involvement. They had wanted to give me a list of candidates acceptable to them. They did give their list to somebody after the fact -- maybe it was to Martijn Paijmans – and it just so happened that Anne Krueger was on their list. But I don't want to give *them* credit for my picking Anne. *I* picked Anne!

I have to acknowledge that Ann was from the University of Minnesota – and I have a law degree from the University of Minnesota. I do have a warmness for Minnesota, but not a bias. My bias was I wanted a development economist who knew his or her way around, was articulate, had the courage of their convictions, and could help direct the World Bank in meeting development challenges of the current era -- not those of yesteryear. Today's challenges include family planning, women's issues, and others which were not even in the vocabulary in the nineteen forties,

fifties, and sixties. These all came later. Now development is at the forefront.

LaBerge: So you were able to scope the job in a way that attracted Anne Krueger.

Clausen: Anne was a development economist and she was attracted to the challenge of doing that on a world scale. It helped too that we had a place we could hire her husband, Jim. That was in the World Bank Economic Development Institute, which trained and taught ministers and development officers from Third World countries about development techniques and philosophies. We ran classes year-round for representatives from Egypt, Nigeria, Thailand, et cetera. Jim Henderson became a member of the faculty of EDI. And so we beat the competition to get Anne.

When I left the World Bank, Barber Conable, a former U.S. Republican representative succeeded me at the bank. Within six months, Anne left the World Bank to accept an offer from Duke University to join the economics department. And Jim Henderson also went to Duke as an economics professor. Jim was a diabetic, and he died at Duke. When he died, Anne needed a change of venue, so she accepted the invitation from Stanford to join its economics department. She is now at Stanford as a full professor running an economics institute and teaching what she knows best: development economics. She also founded and runs [Stanford's Center for Research on Economic Development and Policy Reform].

LaBerge: When you went into this job, were you aware of some kind of rule that, in your relationships with our government, you were supposed to be apolitical?

Clausen: I don’t know about a “rule,” but I believed from the outset that the World Bank should be apolitical. The World Bank should do what makes economic sense, and not do something that doesn't make economic sense, but makes political sense. The World Bank is not a political institution -- it's an *economic* institution. If it makes economic sense, we should do it. If it doesn't, we shouldn't. Therefore, to appoint somebody who's a crony or a friend without it being in the best interests of the mission of the World Bank – I would not do it. That just did not make sense. But I recognize there were others with different priorities.

The Issue of Filling a Senior Position

LaBerge: You had a senior position to fill, the head of IFC. Is there a story there?

Clausen: Well, again, here comes Treasury. The IFC [International Finance Corporation] deals with the private sector in development and Don Regan and Tim McNamar, the Deputy Secretary of the Treasury at that time, wanted me to appoint a former senior officer of Wells Fargo who had been in charge of their international division. He had also been the finance minister of Peru, and he was a good friend of Perez de Cuéllar, the former Secretary General of the United Nations, who was also Peruvian. This fellow lived in the East Bay and he died a few years ago. His lovely wife still lives there.

LaBerge: Why did they want this particular man?

Clausen: I don't recall. I only remember that he was a very close friend of Tim McNamar's, and he was the one they wanted. But I didn't. I had nothing against him except that I felt that I had a much better, more experienced person whom I wanted to take. His name was William Ryrie. He's now Sir William Ryrie. He was the head of the United Kingdom's development arm, which was a separate development corporation, and he had been the U.K.'s executive director on the board of the World Bank, IDA, IFC, and ICSID. And the U.K. is one of the seven countries that are represented by only one executive director.

[Reference: Begin Tape 21, Side B]

Moeen Qureshi

LaBerge: So Ryrie was picked?

Clausen: Ryrie was picked and eventually hired. And during the process, the not-so-gentle hand of the Secretary of the Treasury was all over the place on the selection of the head of the IFC.

The situation was made a bit more complicated because Moeen Qureshi, who was then the principal financial officer and senior vice-president of the World Bank (the treasurer reported to him), told me he wanted to go back to IFC. Moeen Qureshi is a Pakistani who had come to Washington and first worked for the International Monetary Fund, the IMF. Then he was hired by IFC, and later became the head of IFC, the executive vice-president. Under McNamara, Moeen was pulled out of IFC to become the financial head of IBRD and IDA. So he was very experienced. After I came on board, Moeen came to me and said, "My best job was in IFC. I'd love to go back there."

So I said, “I'll give it some thought. I've talked to McNamara and I've looked at your track record and it's good. I'd hate to lose you. But I guess we wouldn’t really lose you if you were over at IFC. Plus you have experience there, and you like it.”

I actually tried to get him appointed at IFC because that was what he truly loved. But that really upset Regan. Behind-the-scenes discussions can get pretty strong. I said, “He's a human being, he's very good, and he's the best guy we got.” But this was going to turn in to a major battle and Moeen told me that he didn't want to go through that. So I gave in on that and went for Ryrie instead. But as I said, I still had to get Ryrie over the objections of Regan and McNamar. It was Regan who gave me the dressing-down this time. Regan told me something like, “All Ryrie is, is a government bureaucrat. You don't need a government bureaucrat in the private sector. Keep him in the government sector. It's bad enough. Look around here on the second floor of Treasury. They're all bureaucrats.”

Anyway, I didn't listen to Regan and Treasury. And Ryrie turned out to be terrific, just terrific. Shihata was and still is terrific. They were both great acquisitions. Great hires. Some of the best. Anne Krueger was fantastic. Anne Krueger still has the potential to become a Nobel Laureate.

I started a center at Berkeley, at the business school -- called the Clausen Center for International Business and Policy. One of the parts is to have an advisory council to that center, and I asked Anne to be included in that. Peggy and I have dinner with Anne periodically. We kind of alternate -- which reminds me, it's our turn. She is alone and lives down the peninsula and teaches at Stanford on the faculty.

Recruiting Tim McNamar for Bank of America

Clausen: An aside about Tim McNamar, the Deputy Secretary of the Treasury under Don Regan, all under Ronald Reagan. I had tried to hire Tim McNamar when he was just graduating. I believe he went to the Amos Tuck Graduate School of Business at Dartmouth.. My first meal in Washington, D.C., was with Tim and he came down from Amos Tuck. Peggy and I didn't know where to have dinner, so we asked Tim if he knew Washington. He said, “A little bit.” We said, “Pick a place.” And we met him there. He came out to California for an interview, and we offered him a position. But he got a bigger offer someplace else in Los Angeles. Tim might have been the CEO of Bank of America.

LaBerge: If he had said yes?

Clausen: If he had said yes.

Qureshi as Prime Minister of Pakistan

LaBerge: Moeen Qureshi later had an important role in Pakistan, didn't he?

Clausen: Yes. He's still a citizen of Pakistan, and in 1993 when the country's leaders resigned, Moeen was appointed as the acting prime minister. During his three months in office, he put into place World Bank thinking and policies, and he did a lot for the country. He put in courageous reforms and began to straighten the country out. Qureshi is a terrific individual. Very knowledgeable.

I believe that Moeen suffered from cancer. I saw him last September, and I'll see him again next month in Washington.

LaBerge: Did Robert McNamara think you should pick Ryrie over Moeen Qureshi?

Marge and Robert McNamara

Clausen: Well, I didn't talk to Bob on that. I did talk to Bob about a lot of things because I spent time with him and his wife, Marge, before I went to the World Bank. Marge died just as Bob was ready to leave the bank. I think Peggy has the last letter that Marge wrote, which says that she's welcoming us to Washington. When we went to Washington, Bob showed us the city and took us into the World Bank and showed us around. When we had lunch at Bob's home in Kalorama, Marge was ill upstairs and Bob went up there on two occasions during that lunch. Then we came back to San Francisco. This was in January and I didn't take over until July 1. Then Peggy received a letter from Marge, the essence being that she was sorry she couldn't come downstairs, but she hadn't been feeling well. She wrote, "You'll have a wonderful experience here. There's a great bakery just around the corner from where you've bought your house." (Our bid on the house had been accepted, but we hadn't moved into it yet.) She told Peggy, "Bob gets his shirts done here, and there's a great plumber." You know, those things that wives talk about and are very helpful for someone who has never been there. It was a very friendly letter. And then she died about a week later. We read it in the newspapers.

Bob and Marge were opposites. Bob was never shy. He was bold and bodacious. She was gentle and she rounded the corners on Bob's bodaciousness. Bob still is bodacious. We both liked Marge. Bob was the one who told me, "Tom, make sure that you write in the employment

contract that wherever you go, you can take your wife on the plane. Make sure that it's your option and you don't have to ask anybody. It's in the contract." Well, okay. So I put it in the contract that Golsong prepared for me and Peggy used to fly with me all the time. McNamara had coached Golsong on what to put in the contract, which was good.

LaBerge: Did you seek out Bob McNamara's counsel when you took over the World Bank?

Clausen: I tried to keep McNamara posted out of courtesy, and occasionally I would ask for advice and follow his advice -- not very often, though.

LaBerge: Not very often ask or follow? [laughs]

Clausen: Not very often follow. Also not very often ask. I would see him about once a quarter. He told me that I could not put in a merit increase system for pay in the World Bank, but I did.

Changing Salary Structure at the World Bank

LaBerge: So you talked over the World Bank's salary structure with McNamara?

Clausen: As I said, I tried to keep him posted, and we would meet for lunch over at the Metropolitan Club, which is my club. He preferred that rather than come back into the bank. The World Bank is very strange about those things. When you're out, you're out. We got to be close friends with Russell Long and his wife Carolyn. One night when we were having dinner with them, Carolyn said to my wife, "Peggy, just one thing to remember: in Washington, if you're out, you're out." That's also true in some corporations. When you cease to be the CEO, you're really out. I'm not going to give you names, but that's a true statement.

At this lunch, I said, "Bob, help me out. I think the salary situation of the World Bank is terrible! Everyone is paid by the numbers. More than eighty percent of the raises come by the numbers and no discretion is used to differentiate based on performance. We can only have discretion on the smallest part of the pooled money in the pot. Bob, as you know from your Ford Motor Company days and I know from my Bank of America days, we really ought to reward those who do the best job. We ought to have a reward system that keeps people excited and involved. The World Bank system doesn't do that, and I don't like it. So what do you think about my shaking that system up a bit and changing it?"

McNamara advised me not to change the structure. Jacques across the street in the International Monetary Fund also told me he didn't think I could do it, that it wouldn't work. He wanted to keep doing it the way I call the "United Nations system." I remember talking with him and explaining the private sector approach. I kept both Bob and him informed.

LaBerge: Who was "Jacques" at the International Monetary Fund?

Clausen: Jacques de Larosière. He's now the president of the European Bank for Reconstruction and Development. He's a Frenchman, and he's very good. I've learned to have very high respect for Jacques de Larosière. He's a fair man and a good thinker.

LaBerge: Tell me more about what made you want to change the salary structure of the World Bank.

Clausen: Well, at that time more than 80 percent of the raises were done by the numbers, and only a small consideration was given to merit. Everybody got a 3 or 4 percent increase, whatever -- the halt, the lame, and the dumb, as well as the smart and the brilliant. Management had very little leeway to incent people to perform their best. It was like the United Nations system where, if we're doing the same job, my increase is the same as yours, regardless of the differences in the quality of our performance. Let's say, here is Germaine LaBerge and Tom Clausen doing the same job. In the United Nations kind of system, I say, "Boy, she's working her tail off. Why is she doing that? My raise is just as big as hers, so why should I work as hard as she does?" And on your side you say, "Everyone knows that Clausen is dogging it. He takes time off and plays golf, but he still got just as big a raise as I did. Why should I work my tail off? I'm down here Saturdays, Sundays, making sacrifices for my family. But he isn't doing any of that and he gets paid the same as me. Why should I work as hard as I do when I don't get any more than Tom Clausen?" So you're going to be tempted to ease off, and then the whole organization suffers. That system just doesn't work to motivate and reward the best performance.

The private sector system has a lot of leeway to give larger merit increases to top performers. In the private sector, you want to take care of the really outstanding people you have by rewarding them with the appropriate financial compensation. That includes bonuses and options, not just a warm handshake and love and kisses.

In the World Bank there were some great people who I didn't want to lose. But I also wanted to get rid of some of the people at the bottom end of the pyramid, the ones who really weren't pulling their weight. I wanted to keep the ones who were really outstanding and encourage them that they can do better. But in senior management we had only a small percentage of the salary budget that we could use with discretion.

Motivational Challenges in the World Bank

LaBerge: Is motivation more complex because the World Bank has employees from around the world?

Clausen: Definitely. Only about 20 percent of the World Bank employees are U.S. citizens. All the rest are from all over the world. The staff has Indians, people from black Africa, from all over. Owners of the bank, particularly the large owners of the World Bank, were interested in having an appropriate share representation of the senior officers of the World Bank, so you have affirmative action, but in a different way than we deal with in the U.S. Employees hired by the World Bank from Japan and Germany were frequently seconded --- do you know what seconded means?

LaBerge: No.

Clausen: These are people who were sent to the World Bank by their country, but the country has a tie on them, so they've got to report back to that country periodically. When you're done with your two, three, four years at the World Bank then you come back to the country. That's called seconded. For a manager of the World Bank, this makes motivation very difficult, because you want all of your employees to have their loyalty solely to the World Bank --

LaBerge: And not to the country.

Clausen: And not to your country or your former employer. And I tried to get that. I cut the cord of Germany and Germany understood it, but Japan was still seconding.

LaBerge: Did you get support within the World Bank for making these changes?

Clausen: I did, but there was reluctance as well. The World Bank had somewhere in the neighborhood of 6,000 employees and they thought that was huge. Such a big organization, so many people! How can you put a program like

this in an organization this size? But I'm coming from a bank with 85,000. So big is relative.

One of my biggest assets was the head of personnel at the World Bank. He was a Dutchman named Martijn Paijmans and he was terrific. The Dutch are not noted for being overly diplomatic. They're very candid and blunt. But Martijn had great sensitivity of the needs of employees. He was marvelous and I love him dearly. You just knew you could trust Martijn. Whatever you told him would absolutely stop there. Although many had advised me not to do it, Martijn Paijmans saw the sense of it. He agreed that we should reward those who are really contributing and try to keep them. And the ones who are kind of dogging it and don't get a very big raise will be unhappy and they'll leave, and then we'll replace them with outstanding people. And it opens up the possibility that the people we think are good today may not appear as good a couple of generations down the line when we restock at the bottom and get really great people. It doesn't quite happen that way, but it opens up the mind to what the rotation is.

Martijn bought the idea and we went forward. But it wasn’t easy with twenty-three executive directors looking over our shoulders. We had to explain it to them and get their approval. But in the end, we got their approval.

LaBerge: Were these twenty-three executive directors from the countries?

Clausen: They represented the owners – the 150 to 160 countries that own the World Bank. There are maybe twenty more countries now. Each country is represented by an executive director, and only six countries have an executive director devoted solely to that country: United States, Germany, Great Britain, France --

LaBerge: Japan?

Clausen: Yes, Japan, and China. Not Canada; Canada is in a group of other countries. When I was there, the largest group was twenty-nine countries being represented by one executive director.

But we got the executive directors to approve our changes to the salary structure and place the emphasis on rewarding merit for outstanding performance. We changed it so that, say, 65 or 70 percent of the salary increases were delivered according to merit, and the rest were delivered mostly on a pro rata basis. Some received no raises! I strongly believe in

the system we installed. And sure, we lost some people, but they weren't the people who were being properly rewarded for outstanding performance. They were the ones who weren't performing and therefore didn't get raises. The new system was far more equitable.

LaBerge: I know you instituted other changes in the World Bank. Can you tell me about them?

Clausen: One change had to do with making better use of the World Bank's resources. The World Bank's debt and obligations cannot exceed the equity of the capital -- called and uncalled. Prior to my coming to Washington, it used to be that the IFC borrowed from the World Bank. The result was that the IFC owed debt to the World Bank, which chewed up part of its borrowing capacity. IFC was also constrained by its own borrowing. IFC's capital, callable and paid in -- its debt, its obligations -- could not exceed that 1 to 1 ratio. IFC was borrowing from the IBRD [International Bank for Reconstruction and Development] and that was putting pressure on the capital of IBRD. In a sense, there was doubling up within the World Bank and it was hurting IBRD and diminishing the impact of what we could accomplish. So Ryrie and I moved the borrowing of IFC into the marketplace. That has taken the pressure off the capital of IBRD.

IFC now has a number of investment funds in different developing countries. It raises money which it places into a pool – perhaps $3 billion –investments by IFC. Any person or entity with say $5 million can put monies in the fund. They have funds for countries and regions -- a fund in Brazil, a fund in India, et cetera -- where somebody manages the fund but IFC helps set it up as part of its mission in helping developing countries advance and grow their economies and raise the standard living of their people.

So, to return, I think very highly of Bill Ryrie. In short, he's been just terrific. And IFC is now on its own. Now they have a Norwegian national, greatly experienced, who has taken Ryrie's place. Ryrie would be a tough act to follow, I think.

LaBerge: And Ryrie was the one whom Treasury didn't want you to hire.

Clausen: As I mentioned, I have a couple of rope burns on my back from Treasury. They said about Ryrie, "He's a government bureaucrat." Well, working for government doesn't necessarily make you a bureaucrat. You have to

judge the person. Ryrie was not a bureaucrat. And he turned out to be terrific for the World Bank.

International Code for Investments

LaBerge: Earlier you told me that in your inaugural speech, you pushed for an international code for investments. But then we didn't talk about that. Did you get that established?

Clausen: No, I didn't, and it's still not there. But I still think it's a good idea. There have been many attempts, and there *are* some codes. One of the first ones was that of PBEC –the Pacific Basin Economic Council. And that's the shadow of Charles "Chuck" Robinson, who was Deputy Secretary of State under Henry Kissinger. Before he went to the State Department, he was president of Marcona Corporation in Utah while living in San Francisco. Charles is also a trustee of Brookings. He was active in PBEC, and I also used to be in PBEC in the 1970s, though I was not as active as Chuck. PBEC established a code of conduct for how a country should act with respect to a third country investor, and also how the investor should act within that country.

International codes of investment are not easy to come by. They are a GATT [General Agreement on Tariffs and Trade] kind of arrangement for investments, not just trade. When the Business Council -- it's a business roundtable more than a council – set up a committee on it they labeled the committee "trade and investment." GATT and now WTO, the World Trade Organization, a successor to GATT, have gained a lot of attention. But we need a similar kind of apparatus that will cover investment because developing countries are short of infrastructure -- intangible as well as physical infrastructure -- and they need investors to invest in their country. They need that in order to give them the wherewithal to advance their economies, grow jobs, and employ their people and raise the standard of living of their people. That's the general idea and thrust and purpose of a code of investment. But we still don't have one.

[Reference: End of Tape 21, Side B. Begin Tape 22, Side A]

NAFTA and the Environment

LaBerge: So in NAFTA [North American Free Trade Agreement], when the environment became one of the criteria --

Clausen: NAFTA includes minimum standards for taking care of the environment by the partners: Canada, U.S., and Mexico. It particularly impacted Mexico and involved it financially, because Mexico hadn't paid much attention to the environment with their steel mills using coal, etc. Some of its industrial processing polluted the air with effluence coming out of smoke stacks, et cetera, and the dregs from their copper mines and their mining of minerals polluted the water and soil. But I think that NAFTA was the first time in the world that a trade agreement included concern for the environment. Environmental standards were included partly on the theory that one partner to the three-country agreement should not be able to just thumb its nose at investing to clean up its environment while the United States and its indigenous laws require it to do so. Canada also has those requirements, not to the same extent as the United States, but pretty close. And Mexico was getting a free ride. As a consequence, Mexico could produce the same widget or clothing or whatever for far less cost than the U.S. or Canada by not investing in its environment, and that's unfair.

On the other hand, the developing country can say, "Gee, United States, you didn't invest in or care about the environment when you were developing *your* country. A hundred years ago you were shooting Indians right and left and having your locomotives blow coal smoke all over the Western landscape. Why do you require *us* to do it when we are poor and developing and not nearly as strong as you are now? You're the one who's getting a free ride because you have these things in place, and now you're causing us to do it." Well, that's the argument.

The World Bank has an answer to that. The World Bank started to pay attention to the environment as early as 1970. At that time, there were only a couple of handfuls of countries in the world that had environmental concerns at the top government level -- Washington, London, Bonn, Paris, et cetera. And now every country has environment at the top level. In the U.S, it's the EPA [Environmental Protection Agency], and the argument in recent years was whether the head of the EPA should become a member of the Cabinet. William Ruckelshaus was the first head of EPA; in 1970.

So the environment is of global concern. Global warming, the greenhouse effect, the ozone holes. We have to become aware of these issues and deal with them, so I think it's appropriate to include them. To provide the infrastructure that's required to deal with these issues requires investment. If we could have a credible agreement among nations as to what their responsibilities to the environment are and what they should do, it would be a better world. In order to have a global view, a global agreement

requires every country to put a little bit of its self-interest into a common pot and trust somebody else, like GATT or WTO or the UN for certain things. It'll be better -- or maybe I should say less bad. But everyone doing their own thing – "beggar thy neighbor, come what may" – that is not a good world, and we cannot do that.

This is what you might call a "big idea," and some big ideas require generations to come to reality and then to make a difference. GATT started a long time ago, in 1948, and I do know it is a better world when we get trade restrictions out and lower the barriers and have common goals as to how we will treat common issues.

LaBerge: You achieved a similar "big idea" when you established MIGA at the World Bank, didn't you?

Clausen: Yes, there were other attempts to establish an insurance agency, like OPIC [Overseas private Investment Corporation], but internationally. Mine was the third attempt to get a guarantee program launched for insurance against non-credit risks -- a guarantee against acts of war, acts of governments expropriating assets of foreign investors. Each time, the failure had been because they had loaded this thing they wanted to get into orbit with all these beads and bangles and it was just too heavy to get off the launching pad.

And so Shihata and I said, "Well, let's not load it up now. We can always load it up later. Let's get something started that will do the job, maybe not 100 percent, but it'll do most of the job." And voilà – we got it started. It was a credit to Shihata's smarts, his negotiating skills, and the experience that he'd already had in starting a multilateral guaranty agency among the Arab nations. That one had been small by comparison to what I'd envisioned in my inaugural address -- one that was comparable with OPIC in the United States and the indigenous insurance agencies in nineteen or twenty countries that did insure against these extreme risks. But Shihata made it happen.

Today it is profitable. The basic purpose of the entities comprising the World Bank group is not necessarily to make money. When you're in the private sector like BankAmerica, the objective is to make money and take care of your shareholders. But the principal mission of the five entities that now comprise the World Bank group is to serve the world and to raise the standard of living of people living in indigenous countries. Yes, you have to make money -- IBRD has to show profitability and an ability to manage its affairs in order to retain its AAA credit rating. Also, MIGA has to show

it's well managed and it can operate in the black in order to obtain and then retain the respect and support of those countries that are paying a fee to MIGA to get the insurance. You don't want to buy an insurance policy from an insurance company that's about to go under, because the policy is not worth anything. When you're placing a $25 million investment in a country and you're paying maybe a quarter of 1 percent or half of 1 percent or some small percentage of that $25 million for insurance, it can still be a substantial sum. An investor has to think about that.

Looking back to my first months with the World Bank, I thought I would have the time and the energy to bring that insurance entity to life. But it turned out to be a tougher job than I had imagined. And MIGA would not be here today, were it not for Ibrahim Shihata. I give him full credit. Yes, I supported him, but I could not have done it myself; I don't have the energy. Shihata was a natural for it, and he is really a tremendous individual and thinker.

LaBerge: What's he doing now?

Clausen: He is, I think, still the general counsel for the World Bank. He's still in Washington. He had a rather mysterious illness several years ago but he's recovered. It's been a year and a half since I last saw him, which reminds me, I ought to remedy that too. About every other year Peggy and I go back to Washington to get some of our friends together for dinner. I still have a membership at the F Street Club. We don't take over the *whole* club, but we get upwards of twenty husbands and wives together and share, because we fought the good fight together.

One year Samia (Shihata's wife) came and Ibrahim did not, because he was not well. I don't think he wanted to tell us what he was suffering from, so I guess that maybe it was a kind of a cancer, which was in remission or whatever. He's lost a lot of weight.

Margaret Thatcher, Indira Gandhi, and IDA 7

LaBerge: Early on, you told me to remind you to tell the story about Margaret Thatcher and Indira Gandhi -- ending with roses [laughs].

Clausen: We were struggling for IDA [International Development Association] 7.

LaBerge: So this will lead into IDA 7 -- perfect.

Clausen: IDA 7 replenishment. IDA lends to countries that have a very low per capita income and lack the financial ability to borrow from IBRD. IDA only charges a servicing fee for its loans. IDA is funded largely by contributions from the governments of the richer member countries. Only part of its funds come from repayment of earlier credits and from IBRD's net income – because it is still growing. So donor countries get together every three years to replenish IDA funds. And depending on how much money we would get for IDA, we would stretch that over the next three-year period. At the time we're talking about, we were coming up to the seventh replenishment of IDA. That's why I refer to it as "IDA 7."

IDA funds are the dearest development money on planet Earth, and there isn't enough of it. When you figure that in those days one and a half billion people of the then almost five billion people on Earth were living on less than a dollar a day – which for a country would be less than $365 GDP per capita per annum – there was just not enough money.

At the time, India was the eighth most industrialized country in the world, but it was very poor per capita because it has got so many people. Back in those days, India's per capita GDP was something like the equivalent of $450 U.S. dollars. Still, in a very large sense, it is a creditworthy country. But it was using an enormous amount of this precious IDA money -- the biggest single chunk. It was kind of unfair for so much of this money to go to India, as it was only one country out of the many, many, many countries that were so poor. India had industry, it had a cultural history, and thanks to the World Bank, it can feed itself. Instead of giving them warehouses to store rice that they can import, instead of giving them money to import fish, the World Bank basically taught them how to fish.

Through CGIAR [the Consultative Group for International Agricultural Research begun in 1971] there are some seventeen or eighteen countries that have started to do research on how to improve the quality of rice and increase the production, the harvest, and the yield that rice can give. This research is also being done on corn, cassava and other foodstuffs as well as on cattle raising. It has research institutes around the world -- in Mexico, Latin America, in Africa and so on.

Rice is a staple in India. Years ago, India had to spend hundreds of millions of dollars every year to import rice to feed its people. Then the World Bank helped India. Instead of building harbors to take care of the ships to import the rice for the rising population, the World Bank looked at financing the improvement of the country's agricultural techniques. As a

result, India today is an exporter of rice, not an importer! Its growing population is really self-sufficient in a good many ways.

No country is self-sufficient; we all import, we all export. Import substitution is a bad policy for countries. Saudi Arabia is very, very wealthy; it's got money gushing out of its oil wells. But it wants to become self-sufficient. So it's growing crops out of the sand, getting its pure water by thawing icebergs that it drags from the North Pole down around Africa and up the coast. That's import substitution. But that's terribly expensive. For them it would be far cheaper and better to buy the crop from someplace else. That's global efficiency on agriculture.

But India was using too much of the world's scarcest money, IDA money. It became my task to start to wean India off of that valuable spigot and on to the IBRD spigot. Now, instead of paying a quarter or three-eighths or paying a half of one percent for their money, they were going to have to pay market rates: 6.5 or 7 percent. Now they were also going to have to be concerned with the volatility on rates. I should make a side excursion here, if you'll bring me back.

Volatility on Rates

LaBerge: Make it, and I will bring you back.

Clausen: Okay. Volatility on rates. It used to be that the currency risk was not taken by the World Bank, but by the borrowing country. The World Bank would borrow in Japanese yen, U.S. dollars, British pounds, Kuwaiti dinars, Swiss francs, and whatever. And a country would have to borrow as the cost of those currencies fluctuated over a three-, four-, or five-year cycle or even an annual cycle. The countries would have to lock in the rate on it. I thought that was unfair. So I created a pool and put all the currencies in a pool and used an average cost. Then we lent out of the pool at an average rate, and a markup over the average cost. Over time the pool would build up with ten billion dollars a year borrowings. Now that's up to maybe fifteen billion a year. It's constantly rolling over. Previous borrowing would be repaid and it would come into the pot, and new loans would be made. The aggregate borrowings of the bank, on the balance sheet, would keep going up, and it does keep going up. The rollover is sufficient to take care of the needs.

The idea was to put it all in a pool, so therefore it's less volatile. You mix the lowest rates on borrowing -- when I was there, high rates would be the dollar, and the lowest would be the Swiss franc or Japanese yen. Of

course, that was in the heyday of the yen and the troubled days of the dollar. And so we negotiated hard. Because the World Bank was so creditworthy, it could borrow at almost the same rate as a government could. If the government of the United States was in the market to borrow, it could borrow at the lowest rate. But because the U.S. was in difficulty in the eighties, the dollar was a very expensive currency to borrow.

So pooling these currencies helped the individual countries. And every six months we changed the rate at what a country borrowed, but we also changed the rate on the outstanding loans that they had borrowed. So that, I think, is a big contribution that we made to the developing countries -- how they borrowed and the rates.

Okay, that was a side excursion.

India and Prime Minister Indira Gandhi

LaBerge: And a good one. Back to India.

Clausen: Peg and I went to India, and I told Prime Minister Indira Gandhi that India would have to take more monies from IBRD and less from IDA, because the greatest development challenge facing planet Earth was, and still is, black Africa, Sub-Saharan Africa. I want to come back to that. Maybe it'll take me half an hour to tell this story, but I think it needs to be told and go down in the historical archives.

LaBerge: That’s just fine. Tell away.

Clausen: At the same time we were telling India, much to their disappointment, that they would have to pay more for what they borrowed from the World Bank, we told them we needed all the help we could get on convincing governments to give to their seventh replenishment for IDA, as the every-three-year replenishment was at hand.

I can remember walking down the grand stairs of the palace of the old maharajahs in Delhi. Peggy was on one side of Madame Indira Gandhi, and I was on the other side. Prime Minister Gandhi reached over and held my hand as we were walking down the steps, kind of pleading that India just had to give the Bank a full replenishment of its funding. I think the Bank was shooting for a $12 billion replenishment -- $4 billion a year times three. But the U.S., which was the largest single contributor, was pulling back because of a lack of funds, just like it is pulling back today in 1996. And that put more pressure on what India was going to get.

[Reference: Begin Tape 22, Side B]

Clausen: So I asked Indira Gandhi for her help. I said, "You are the largest single recipient of IDA development funds. So as helpful as it might be to have your strong support for IDA replenishment, it would be fantastic if you could get that other lady prime minister in the U.K. to help you."

Also I had it in mind, but I don't think I told her, that I was going to be working on Japan. Japan, I felt, was not fully pulling its weight as a contributor to the good of the world. At the time, I felt it could do more. So I had an idea that maybe we could make a trade. I knew that Japan wanted to "sit closer to the salt shaker." That's a saying that comes from big state dinners where the salt is near the head of the table and everyone looks at how close they are to it. At this time, I think the U.K. was the number two contributor to IDA. If I could get Japan to increase its contribution to the level of being the second largest, and get Great Britain to accept that happening as well, we could do more for India. I was willing to help, but I told Indira Gandhi I needed her help with the U.K., as well.

Let me say that in a good many of her press photos, Indira Gandhi looked mean and tough. But she was one of the most feminine females, feminine women, that I've ever known or met. She was a small, fragile lady with an understanding heart.

LaBerge: Oh, really? She looks tall.

Clausen: She was a tiny lady! Peggy is five-foot-three, and I think Indira Gandhi was about the same, except Indira Gandhi looked frail. But she had an iron mind, an iron dedication. She was one tough lady, but in a very feminine way. A powerful diction of argument came out of that small frame that made Indira Gandhi. I was very impressed with her. I liked her very much.

Japan and IDA 7

Clausen: Now, since the U.S. wanted to cut back from what it gave, who was going to pick up the slack? Somebody had to give more -- otherwise how do we fill the bucket? So this takes me to Japan. I arrived on a Sunday afternoon straight from America. It's a long way to go and I was tired, but I joined Japan's World Bank executive director at dinner. Kenji Yamaguchi was his name. With us was Nobura Takeshita, the minister of finance. He had been out campaigning for the LDP, and he came in for the dinner. The deputy minister of finance, [Tomomitsu] Oba, was there. Toyoo Gyohten,

the vice minister of finance for international affairs was there as well. Toyoo is a really terrific person. I not only like him as an individual and as a personality, but I respect him greatly. I got a letter from him just the other day. So there were four Japanese at the dinner, three from the ministry of finance, and then the executive director of Japan on the board of the World Bank. With us too was Joseph Wood, who's now a vice-president of the World Bank.

I think the dinner was at Kiichi restaurant, one of the most expensive restaurants in Tokyo. It's not a geisha house, but it has great food and there might have been geisha females serving. Kiichi happens to be the favorite restaurant of Kaneo Nakamura, who was the president and CEO of IBJ, the Industrial Bank of Japan, which is one of the most powerful banks in all of Japan. I just had lunch with Kaneo. Kaneo and I were at the Harvard Advanced Management Program at the same time in 1966 when he was a junior officer at the Industrial Bank of Japan, and I was a junior officer at Bank of America. And we both ended up at the top of our banks. I always see Kaneo or call him when I get to Tokyo. He doesn't come to San Francisco very often, but I'll see him next month in Washington at the annual meetings of the Bank and the IMF.

That evening we talked about what might happen if Japan increased its contribution to IDA by a substantial amount. Could it get ahead of France? Could it jump over Germany? And get ahead of the U.K. -- in exchange for being the second largest contributor to IDA? The way the pie is sliced in IDA, if the countries that are owners of IDA agree to -- let's say -- a $9 billion replenishment for IDA, then you take the various weight of the ownership and allocate the charges accordingly. The U.S. is charged X, the U.K. is charged Y, and Germany a little less, France and Japan a little less than that -- that's the way it worked. But if Japan substantially increased its contribution, would the U.K. have to give up its number two spot? What would France think about Japan being ahead of France? My goodness – unthinkable. Too often in the world pride gets in the way of judgment. It would be a far, far better world if we could forget pride and do what's right and good and honest rather than letting pride interfere with judgments – if we could do things for their true, intrinsic worth rather than for political reasons.

I found that to be one of the most fascinating evenings that I spent in my whole life. I have great respect for Takeshita and for Oba and for Gyohten.

The United Kingdom and IDA 7

Well, we worked out an arrangement whereby Japan would indeed consider increasing its contribution, while I agreed to deal with the U.K., from the prime minister on down. So minding my Ps and Qs, I first talked with the U.K. executive director at the World Bank. Then I dealt with the Chancellor of the Exchequer -- that's the minister of finance in Great Britain. And we got agreement there. Not only did he agree to let Japan jump over them, but he also agreed to drop below Germany. The U.K. agreed that it would lower its pecking order in ownership and would contribute less to IDA percentage-wise because it would be taking a smaller percentage -- giving up shares -- and Japan would be taking those additional shares. The deal was done!

LaBerge: Did you speak to Margaret Thatcher too?

Clausen: Yes, at the end, to thank her for agreeing.

The U.S. did not come up with the right amount, so the deal stuck. So while the sixth replenishment was at something like $10.5 billion, the seventh replenishment was at $9 billion or less. Even after Japan took the number two spot it gave more than what had been agreed upon, and we changed the pecking order of ownership of IBRD. As we sit here, Japan is now the second largest shareholder of IBRD and the second largest contributor to IDA.

As a final gesture, I sent a letter of congratulations and roses to the two lady prime ministers – Indira Gandhi and Margaret Thatcher.

Family Planning and the World Population Conference

LaBerge: Another priority you emphasized at the World Bank had to do with family planning, didn’t it?

Clausen: Yes, I got the World Bank to increase rather substantially its emphasis on family planning. You can't call it family planning in some countries, because of church reasons and all that. The first U.N. sponsored World Population Conference took place in Rome in 1954. The conference is held about every ten years, and the second was in Belgrade, Yugoslavia, in 1965. The third was in Bucharest in 1974. The next one was in Mexico City, and that was in 1984. The most recent World Population Conference was in Cairo, Egypt, in 1994.

The 1984 conference in Mexico City was important historically, because the U.S. took a position that family planning was not important, and that population growth helped an economy to grow. Now every year, the World Bank selects an issue or a subject on which to do research and publishes it as its World Development Report. As 1984 was to be the year of the next World Population Conference, I helped the World Bank select the subject for that year's World Development Report. The subject was the causes and consequences of rapid population growth, its link to development, and why it had slowed down in some developing countries.

Nancy Birdsall, a wonderful economist at the World Bank, headed up the task force. She's a terrific young woman who is now at the Inter-American Development Bank. The resulting publication said that the population growth on planet Earth is going too fast, we need to slow it, and how do we slow it? Through education of women. Yes, educate the men too, but educate the women, keep them in school longer, give them job opportunities and you will begin to make a real impact on the problem. It's now gospel, and that was the discussion piece at the Mexico City conference.

The United States did not look good at that conference because the policy of the Reagan administration I think was dead wrong in 1984. Jim Buckley was the leader of the U.S. delegation to Mexico. Bill Draper was a member of the U.S. delegation. Jim Buckley is the brother of Bill Buckley whom I knew well because he was a member of Hillbillies camp at the Bohemian Club, as are Bill Draper and myself.

Leading up to the 1984 conference, I begged for a position on the roster as President of the World Bank. There were so many speakers and everyone wanted to speak, but I wanted to give a seven-minute pitch to extol the virtues of the World Development Report that the World Bank was putting forth. I got on the agenda and I was able to present our conclusions and solutions: yes, population should be controllable, but we ought to really emphasize education of women, open up job opportunities for women and promote them -- we didn't use the term "glass ceiling" then.

At the World Bank we believed also that health issues had a tremendous impact on population growth. Let's say I live in a developing country, one of the poorest countries in the world where we subsist on agriculture. I need children to help me in the fields. I know too that when I get to be old, I will need to have my children take care of me. In countries with good health systems, that might be accomplished by having three children. But in the poorest countries with high infant mortality, I need to have eight or

nine children in order to have several still alive when I grow old. Kenya is one of those countries.

We believed that population growth will slow if you can improve health care and reduce infant mortality. That way I only have to have four or five children. Our conclusion was that, yes, you're going to get a little increased growth in population as you improve the health situation, because those people will live longer. But on balance, women will have fewer children. which will slow population growth. And if you put the emphasis on women by educating them, keeping them in school longer, and giving them job opportunities, you can make an even bigger impact. That was the equation, and I thought Nancy Birdsall did an outstanding job.

At Cairo in 1994, the U.S. had a different administration, and here our vice president --

LaBerge: Gore?

Clausen: Gore led the delegation at that one, and it was almost a complete reversal of the position adopted before ...

LaBerge: Of Mexico?

Clausen: Yes, of the decisions at Mexico City.

LaBerge: And you attended?

Clausen: No, I didn't go to Cairo. I thought about it but I felt there was now too much public attention and media coverage. I'm a very private person, and I really don't like to get out in front. I am not built to be out front leading the troops. I am really built to be a follower, in the background. Until my button is pushed.

LaBerge: Earlier we spoke briefly about your concern for Sub-Saharan Africa. Let’s talk more about that. How did you put that concern into practice?

Clausen: I have great empathy for the plight of black Africa. If you talk to Richard Leakey -- his father and mother both were great anthropologists -- some of the earliest people on planet earth were in Africa. Sub-Saharan Africa represents one of the most primitive parts of the world that I've been. When I left the World Bank, my intention was that I was going to do something here in the United States about the plight of black Africa. But I

agreed with Peggy that at the start, I would take six months off. I had been a CEO for thirteen years at Bank of America and spent five years at the World Bank. I was then sixty-three years old, and we thought it would be good to see how the adrenaline runs and settle in before I took on something new. Still, I knew what I was going to do, but I didn't disclose it to Peggy. It was going to be working to help black Africa.

A little side excursion, but interesting. In 1982, when Peggy and I first went to Cote d'Ivoire – the Ivory Coast -- we were hosted by the president of Cote d'Ivoire, Felix Houphouet-Boigny. He took us to his hometown of Yamoussoukro, which was designated to become the new national capital in 1983. He wanted to make Peggy and me members of his tribe. To do that, you cut fingers and share your blood. So he cut his finger, and then he pricked Peggy's finger. Then he cut mine. And then we shared blood. We'd never heard of AIDS at that time or that Africa was considered to be the most infected region. Boy, today I'd say, "I love your tribe, but thank you. If that's what I've got to do to become a member, I'm not going to do that. I don't want to become a member." But we did it, and we're still alive. Whether we've got HIV or not, who knows? I don't believe we have, because he was the elite.

In Yamoussoukro, Houphouet-Boigny had built a large and rather grand-scale Versailles. The bathroom in this palace was so big I almost got lost in it. This extravagance was in marked contrast to the poverty in the rest of Sub-Saharan Africa. There was very little in between.

By 1986, AIDS was recognized and believed by the global authorities to have its origins in black Africa, in Uganda and Zaire in particular. I think Uganda was the principal site and back in 1986 maybe more than 50 percent of the citizens living in Uganda were supposedly suffering from HIV. So I accepted the invitation to go on the board of the Wellcome Foundation , which owned a pharmaceutical company called Wellcome PLC in London.

LaBerge: Because it had some connection to black Africa?

Clausen: Well, Uganda. Wellcome is a longtime pharmaceutical company. Henry Wellcome was a Howard Hughes, but in a different century. He started a foundation and then he left his money to that foundation, and it in turn had financed the development and distribution of pharmaceuticals as a global operation. This was small -- not like Merck or other huge pharmaceutical companies, but worth a couple billion dollars. Just a few years ago, it was bought by Glaxo.

In the early spring of 1986, the foundation had sold about 25 percent of Wellcome PLC to the public. And the Wellcome PLC owned 100 percent of a subsidiary in Raleigh, North Carolina, called Burroughs Wellcome. Burroughs Wellcome makes Actifed and Sudafed -- those are their principal products. And because I was going to be in Washington, I went on the boards of those companies. I made arrangements that I would go to London four times a year and go to Raleigh six times a year for a total of ten board meetings. And I joined their board partly because they were just on the verge of producing the principal drug that moderates the negative impacts of AIDS, Retrovin.

So Africa was my real interest. And I thought, “Well, boy, I'll learn a lot about Africa.” Also, I liked the CEO, whom I had known before I went to the World Bank. Then I used to see him three or four times when I was at the World Bank. His wife was from Mauritius. A lovely lady. That plan of mine didn't last very long because about 100 days after I retired from the World Bank -- the phone rang, and I came back to Bank of America. That was October 12, so I had July, August, and September as a total retiree!

Desire to Form Affinity Group for Sub-Saharan Africa

LaBerge: I can tell you really wanted to take on the challenge of helping black Africa.

Clausen: Sub-Saharan Africa was, and is, the greatest development challenge on planet Earth in my view. There is no historical memory in black Africa; it's tribal in nature. If you go to Asia, the Orientals have an historical memory. Way back before the pyramids, the Chinese were the most sophisticated society in the world. But black Africa has none of that. The challenges of helping Rwanda and Burundi, the tribes in Zaire, makes the challenges of putting together pieces of Yugoslavia under Tito look like child's play.

I don't know what the attraction is to me, but I want to see anything about Africa – television programs, movies, whatever. When Robert Redford and Meryl Streep did *Out of Africa*, I wanted to see it. Humphrey Bogart and Katharine Hepburn going down the river in *The African Queen* -- that's what I love. I visited, I think, twenty-nine countries in Africa. Because I love the area so much, that's what I was going to do when I left the World Bank. I was going to start an affinity group aimed at helping Sub-Saharan Africa. Look at the world. There is a Japan Society, there's an Asia Society, but here in the United States there is no such thing as a society devoted to helping Sub-Saharan black Africa.

[Reference: Begin Tape 23, Side A]

Clausen: I learned also in ringing doorbells in Washington, D.C. about this, that I was not supposed to ring doorbells and lobby myself; I could only lobby the government representative on the World Bank. Otherwise, I had to go through Regan.

LaBerge: The Secretary of the Treasury?

Clausen: Yes. In Japan, that post is called minister of finance, in the U.K. it's the Chancellor of the Exchequer, in the United States it's the Secretary of the Treasury. Different countries have different names, but the job is to take care of that nation's finances.

LaBerge: Are there prominent people in the United States who have a personal interest in Sub-Saharan Africa?

Clausen: I had some conversations with Donald McHenry, the former U.S. ambassador to the United Nations. He's now a professor at Georgetown University. Don took part in coming up with what the U.S strategy should be vis-à-vis the plight of black Africa. It came out in the latter half of 1985. I read it and it was just terrific. I was so impressed. So I talked to Don. I also talked with Lawrence, the Deputy Secretary of State. Later, he was Secretary of State for a short time in the Bush administration. Now he's in partnership with Henry Kissinger in New York. At one time, I invited Larry to a retreat for the World Bank's officers, which we had at the Aspen of the East, Wye Plantation, on the east shore of Maryland on the Chesapeake Bay. It's where we went for two and a half days to discuss the issues impacting the World Bank, what we should do, what our vision and goals for the ensuing twelve months should be, and for bonding and togetherness, and all of that. Although Larry got ill and couldn't come, it was a mark of my respect and admiration for him that I had invited him. I first met Larry in Belgrade when he was the U.S. ambassador to Yugoslavia for three years. I still have great admiration for him.

I found that when I was calling on Congress, if I wanted to get Jack Kemp's attention, I would mention black Africa. If I wanted to get François Mitterrand's attention, I would mention Houphouet-Boigny of Cote d'Ivoire. If I wanted to get Mickey Leland's attention -- a congressman from Texas who was the chair of the Black Caucus before he was killed in an airplane crash in Ethiopia -- I would mention black Africa and our concern for IDA. The Black Caucus is an important one in

Washington, D.C. In the first place, it is a combination of blacks who feel themselves to be disadvantaged and therefore they have an affinity with developing countries.

I told you that I failed to get the full complement of funding for IDA 7, even with Japan taking a bigger chunk. So I started a Sub-Saharan African facility to try to replace the shortfall between IDA 6 and IDA 7 and to earmark it for the greatest of all challenges on planet Earth -- the very poorest of the poor countries, those in Sub-Saharan Africa.

In sum, I talked with many people about the possibility of forming an affinity group in the United States to focus on Sub-Saharan Africa, but to this day, no such group exists.

LaBerge: Are there other areas of the world that you feel attracted to?

Clausen: I have a keen interest in the challenge of India. Korea, too. As I mentioned, I serve on the Korea – U.S. Wisemen's Council.

LaBerge: Is there any chance that you could still organize something on behalf of Sub-Saharan Africa?

Clausen: I still have the interest, but now I don't have the energy. I'm over the hill. I'm way over the pale. And I'm in the wrong place to do it. I think one has to be in Washington, D.C. to do that, because there needs to be government involvement. I can't get that from San Francisco. That's what I was going to do had I stayed in Washington and not gotten that phone call to come back to California and try to fix Bank of America. But I'm not sorry that I came back. That in itself -- being asked to come back -- gave me a chance, may I say in all candor, to restore my reputation. Because when I went, and the bank hit the skids, I was being blamed for everything. I finally gave an interview when I couldn't sit in silence any longer. And speaking in terms of our personal finances, my financial life was made by coming back to Bank of America and fixing it.

Another factor in building a successful affinity group for black Africa is that one needs connections. But when I went to the World Bank, the Bank required that I cut all my former connections. So I got off the Bank of America board and the board of then Standard Oil of California -- now Chevron. I was the vice-chairman of SRI International then, too. I couldn't even stay a member of the Business Council, according to the standards of the World Bank. So I cut all my cords.

Also, there are too many other things on my plate now. That's been my problem all my life -- I have too many interests, so I'm always overwhelmed. I always have more than I can do. I'm always out of control. It sounds like I'm complaining, but I'm really not. But one of the things I do regret is that there is no affinity group in the United States to focus on Sub-Saharan Africa. And that I didn't get a chance to try my hand at putting together such an affinity group.

LaBerge: In the years since you left the World Bank, have you seen any improvement in Sub-Saharan Africa?

Clausen: One could argue that Sub-Saharan Africa has only shown some slight improvement, a few parts more than others. I'm not talking about the Mediterranean countries. It's south of the Sahara where the real problems are – the problem of disease, the problem now of AIDS, the problem of a lack of education, a lack of money, a lack of export earnings, of foreign exchange, and all of that. And the rest of the world is not paying a great deal of attention.

Help starts at home, and not enough of those countries present themselves in ways that would be attractive to foreign investment. Investors have choices; they have alternatives. As an investor, you can go to Asia, you can stay in your own country, you can move from one state to another, or you can go to Latin America, Europe, the Eastern bloc, or black Africa. But investors can't go everywhere, and so they make choices. And Africa comes up short in many ways. But I would have been very happy to spend the rest of my active days trying to help black Africa with that and do it pro bono.

Assessment of World Bank Experience

LaBerge: You mentioned once that you didn't think your strengths were used well at the World Bank, and yet you accomplished a lot. Why don't you give an assessment of your stint there?

Clausen: The World Bank did not play to my strengths. I'm not a politician. I don't think that I'm arrogant -- but I am stubborn. I have views, and I have a very deep sense of right and wrong. So there's very little in me that would make a good politician whose main objective is to get elected. "If you want tax cuts, I'll promise you tax cuts." That upsets me a little. I participated in CED [Committee for Economic Development] and served my six years as a vice-chairman in two stints of three-year terms. CED put out a brochure and walked the hills of Congress, saying that we ought to

first balance the budget and *then* cut taxes. That's what I think. That’s not a popular position. But it’s one I would take.

I'm in favor of cutting or eliminating capital gains taxes. There's a very strong minority that says it wouldn’t do the economy any good. But I guess I side with the majority of the economists, because I think it does *some* good. Then I ask myself whether I think that because I have capital gains to pay taxes on, and sure, I'd like a lower tax rate on them. I don’t think I take that position because of that, but who knows? How can you tell whether you're being honest with yourself or not? That's a deep question, on some of the close calls.

But I don't like what I see in government. Living on the fringe of Washington as I did, but never participating directly, I saw much that I did not like. For example, people adopting strategies like, “Let's leak something here.” I believe there's too much government intervention in our lives today in the United States, so I find myself very strongly in the corner of those who are trying to reduce the size of government. For example, the negative impact of colonial governments on their colonies became very apparent once the umbilical cord was cut and new nations were created. The Belgians had parts of Africa, as did the French and British. The Dutch had pieces of Southeast Asia. When the Dutch left and Indonesia was formed, there were only one or two or a handful of Indonesians who had a college education. The Dutch government didn’t add value to the indigenous culture. The British at least left some infrastructure and discipline.

Years and years ago I was flying in the Bank of America plane on the way to the Philippines where the annual meeting of the World Bank and the IMF was being held. Al Rice was with me as head of what became the World Banking Division for Bank of America, and we landed in Madras, India, to refuel. Our practice was always to get up when we could and walk around the tarmac to exercise a little bit. It was about 110 degrees outside. We noticed that about 500 yards away, where the terminals were, there were two Indians with guns on their shoulders who walked maybe 150 feet, stopped, clicked their heels, turned around, paused, and repeated their movements. They had shorts on, long knee socks, and they did that for all of the forty-five or fifty minutes we were refueling the plane. Now that's the British influence there. When you go in the hotel in Calcutta, they say, “Yes, ma'am. Yes, sir.” And the British left that stamp. I didn’t see that with the Dutch. Historically, they were traders. So governments are not always doing things that are in the best interest of the people, particularly when they are colonial governments. That was especially so in

black Africa. When the colonial nation cut the cord and the new country was now on its own, it often had nothing left – no infrastructure and no social structure. That's one reason why Africa has such a steep hill to climb.

[Reference: End of Tape 23, Side A. End of Interview 6]

LaBerge: Why do you think your strengths didn't play in the World Bank?

Clausen: The World Bank is an instrument of governments, and I had no experience in dealing with governments. I didn't realize how difficult it is to move things in the public sector. I was born and raised in the private sector, which you think is difficult, but I could get things done there much easier and quicker than in the public sector.

I mentioned earlier that I said in my maiden address to the governors of the World Bank in September 1981, that I wanted to establish a MIGA. I thought I could do it in two years. It actually took more than five years. And it would not have happened at all if it were not for Ibrahim Shihata. I get frustrated. I have described my World Bank experience as being the most challenging job I've had in my entire career. But not the most satisfying or enjoyable job. I did indeed have great moments of joy and satisfaction, but I also had a lot of frustration. Most of the frustration came from how difficult it was to get governments to do what I thought was simply common sense. You and I both know legislators who have said, “I know it's stupid to do this, but I've got to get reelected. It's wrong for the country, but if I want to be reelected, I've got to do it.” And then the horse-trading that goes on in governments. That part kind of offends me. I could never work for a single government. If I worked for a government and had to implement something I didn’t believe was for the good of the country, I would find that objectionable. So I never stepped into that.

Advice to Someone About to Head the World Bank

LaBerge: What kind of advice would you give to someone who was going to take on the job of president of the World Bank?

Clausen: That person should have great empathy for the disadvantaged in the world.

LaBerge: Which you certainly have.

Clausen: I do feel that way. I learned mine at the United Way. As you know by now, I'm a United Way freak. The United Way International is headquartered in Washington and there are now thirty-some countries that have United Way programs. Offshore United Way raised $500 million in the aggregate in the last twelve months, which is quite substantial. Fifteen years ago it was maybe $100 million.

However one gains it, the president of the World Bank has got to have empathy. He or she must be realistic in terms of timeframes -- particularly if the new president comes from the private sector and has had no previous government experience, which was my case.

[Reference: End of Tape 24, Side B. Begin Tape 25, Side A]

LaBerge: So government experience can be an asset.

Clausen: Yes, Barber Conable had twenty-plus years of government experience in the United States as a congressman from western New York state. Robert McNamara was Secretary of Defense for many years. I had no such background. But my government experience as head of the World Bank for those five years was perfect background later for dealing with the difficult issues facing BankAmerica Corporation when I came back -- the budget challenges, the people challenges, the marketing challenges, the shareholder challenges, and the media challenges that were facing Bank of America. It is so much easier by factors to deal with the private sector than it is with the government sector. I don't know how to describe it any other way than that.

LaBerge: Any other specific examples of how that experience helped you when you came back?

Clausen: I was full of gratitude in dealing with Bank of America problems and thankful that I did not have executive directors as I did at the World Bank – in essence, living on the premises, looking over my shoulder, and inspecting every move that I'm making. Perhaps that's a little unkind. The executive director is a cautionary bit of additional bureaucracy that the World Bank finds itself with, and one could say that governments need to have a watchful eye on the World Bank. Yet there are different ways you can have a watchful eye. And had it been *my* call when we created the European Bank for Reconstruction and Development, we would have created it in a different model – with less bureaucracy than it came to have.

Even though the European Bank for Reconstruction and Development was created on the same model as the International Bank for Reconstruction and Development at the World Bank, EBRD got off to a terrible start. Even with the executive directors meeting and looking daily at what EBRD was doing under Jacques Attali, the first president, one could only describe its early days as atrocious. I don't think the bureaucratic structure EBRD was given served it well.

LaBerge: Are there more qualities you'd recommend someone develop if they were going to head the World Bank?

Clausen: You've got to be able to communicate well with various constituencies. You've got to be broad and not narrow because you're dealing with governments -- the G-7 governments, the developed countries where you borrow the monies, and then the developing countries, of which there are far, far more than there are developed countries. You have to be able to get along well with all those constituencies. Then you have to be sensitive to the needs of your employees. It makes no sense to settle for anything less than the goal of having the very best professionals in the world in all the right spots at the World Bank. But that's a bigger challenge because the very best have egos. I've never been president of a university, but I've been told that it's much like that role. So the job of World Bank president suits some temperaments better than others.

Here's a bit of personal philosophy to inject into the mix that I've thought about a great deal in my professional career. There are times in which it's important for a manager to be patiently impatient. There are other times when it's even more important that a manager be impatiently patient. There is a very clear difference in my mind. In the early 1970s in Bank of America, I used to say that sometimes you hit the bank with all your might in order to get the Bank of America to move. (It was big then, but not nearly as big as it is now.) Then four, five, or six months later you'll see it move in the direction you want. So that's an example of where you've got to be patiently impatient.

However, you've got to be impatiently patient in dealing with people. Some people you've got to push on the left, some on the right. There are all kinds of different styles of management, and every manager has to find a style which suits that manager and which makes him or her most effective. In Bank of America's history, L.M. "Mario" Giannini, the son of our founder, A.P. Giannini, was far different from his father, but still he was effective. I never met Mario. He died in 1952, just a few years after his father died in 1949. He was followed by Carl Wente, who was gruff

and tough and who didn't *appear* to be very sensitive. But truth be told, I've seen him cry.

LaBerge: So you can assess the management style of almost all of Bank of America's CEOs.

Clausen: Well, I can for the presidents that I've dealt with or been around. Clark Beise gave the bank credibility, which was a big contribution. I would say that the best president of Bank of America, in my view, was Clark Beise. Then comes Rudy Peterson, who put us in the international arena. Then comes Clausen. Each one of those had a different style. But each one was effective. Rudy is very different from me and he's very different from Clark Beise. I am different from both of them. But I think that history will say that all three of us were effective as managers.

So someone who is going to step in to the presidency of the World Bank needs to know that it's not an easy managerial job. Hopefully he would have some experience in management. I would say that it's better for the next president to be a "people's person." The next president ought to have empathy with people, know how to deal with people, how to motivate people, and how to get the best out of people. Dick Rosenberg is terrific at that and one of the best at motivating large numbers of people. He has crowd appeal. Other people are very effective one-on-one, but they have no crowd appeal at all.

I think that last point applies to the candidates now running for president. Last night we watched some of the earlier 1984 convention in San Francisco on television, where both Barry Goldwater and Bob Dole spoke. I think Dole is very effective one-on-one. But Bob Dole is not exciting to a group.

LaBerge: Does an incoming president of the World Bank need to have a world view?

Clausen: In this role there is no escaping that you've got to have an understanding of the world. The president of the World Bank should really understand the phrase that everyone uses – and that phrase is "global interdependence." Not enough people in this world understand the interdependence of the global structure. I don't mean the physical structure. I mean the intangible structure of the world -- its peoples and cultures, economies, drives, motivations, its desires.

I told you I started out as a philosophy major at college and I'll be absolutely philosophic about this. I think the new president should be patiently impatient rather than impatiently patient. He should give the appearance of being patient, but in his heart, he should be impatient. To be most effective in the World Bank, you need to disguise your impatience with an exterior patience.

The challenges of the World Bank are great. But not very many people understand what the World Bank is all about. They say, “You should do this.” Or, “Why don't you do that?” Well, it's like saying -- Peggy is a smoker and I'm not -- “Why don't you have your wife stop smoking?” Well, you try it.

Government officials today know through their intelligence, and almost all of them are intelligent -- they know what to do to fix the problems of their countries. What's missing is the political courage to do it. Our congressmen know intellectually what it takes to fix this country, but confidentially they’ll tell you, “It makes common sense, but if I do that, I'm not going to be reelected.”

I know John Taylor, the economist at Stanford University who came up with the tax package for Dole that was announced earlier this week. If flies against my better judgment and what CED came out with last fall saying that there ought to be a balanced budget first and *then* cut taxes. When this is done in an election year, I think it's dumb. There was a lot of criticism this morning on that. But I'm not an economist. Maybe I just proved I'm not an economist by not finding cutting taxes to be very appealing as the solution to the U.S.’s problems. I would cut expenditures. It would be very, very difficult. Not impossible, but very, very difficult. It's a lot easier dealing in the private sector than in the government sector. In the private sector, the CEO can make the decision to do that and hold people in the company responsible for carrying it out. But the government sector has too many constituencies. And that has to be realized in heading the World Bank, which is an institution owned by not one government but now by more than 175 countries in the world.

Finally, I think the president of the World Bank should be smart, articulate, and a good speaker. All those attributes are important. When I say a good communicator, I mean in writing as well as in speech. The bulk of the work is verbal, and you've got to be able to communicate well verbally. It's very important that people understand what you're saying. A lot of smart people don't realize that. We even have a senior officer here -- very bright with several important degrees. I used to ask him privately

after he'd gone on and on for fifteen minutes, "Tell me, what did you just say?"

People always knew where they stood with me. I have strong views, but I hold them because I'm sincere about my beliefs. I think it says something that I'm a Republican, but I don't vote a straight ticket. I vote for the person I think will do the best job. And some of my best friends are Democrats. I know I can be stubborn, but I hope my remarks don't come across as sounding arrogant. Because I don't believe that I am.

LaBerge: I don't think you are either. And the researchers reading your history aren't going to be looking for that.

Clausen: All right. So it's not going to be a work of literary art? [laughs]

LaBerge: It's not supposed to be. I e-mailed the business school, and they're looking forward to this.

Clausen: Oh, it goes in their library?

LaBerge: It'll go in The Bancroft Library, but the business school will order a copy.

Clausen: Being the president of the World Bank is very akin to being the president of a university like the University of California. The professionals in the World Bank are all Phi Beta Kappa and Rhodes Scholars, and they're not only willing but anxious to tell you more about any subject, complex or not, that you want to put on the table. And they can do it in such an elegant way. It takes quite a lot of managerial effort to keep them pulling on the oars so that the boat goes in the direction you want it to. You have to work on relationships all the time. So I can understand the frustration that UC Chancellor Chang-Lin Tien has been undergoing. He's faced with limited resources because of California's economy being in a recession, reduction of taxes, and the rather, in some cases, draconian measures that had to be taken by the individual nine campuses. What a challenge they all have had to maintain excellence which, it seems to me, is *the* principal objective, and to do so with less money.

LaBerge: Do you have any last thoughts for the new head of the World Bank?

Clausen: I really admire James D. Wolfensohn for stepping in to the World Bank in these times, knowing full well that most countries are going to key off the United States. When the U.S. pulls in its support and reduces it, that's

going to cause other countries to do the same. James Wolfensohn is a well-intentioned, capable leader, and I wish him well.

VII. Turnaround of Bank of America, 1986-1991

Setting up an Office after Leaving the World Bank

LaBerge: Now that you were out of the World Bank, where did you set up an office? In your home?

Clausen: We had a lovely big home in Washington. I've never had as nice a home before or after. We have a very nice house now, but that one was great. And I thought about fixing it up with an office or renting an office downtown closer to where things were. Our home was four miles from town, perhaps a twelve-minute drive.

Now at the time, Bank of America maintained offices in Washington and they had overbuilt and had a number of spare offices. But in all candor, I was a little hurt that Bank of America didn't step up and offer me a place to do whatever I was going to be doing after I left the World Bank. So it would have gone against my grain to walk in hat in hand and ask for a place to do my work. But Helen is very protective of me and takes care of me. At times she mothers me, and I guess I encourage that. There are times I need mothering. So Helen went to talk to the Washington representative of the bank, Fred Martin, who's now retired. She asked, "How about Mr. Clausen taking one of these?" And how about a little extra secretarial help?" He replied, "By all means. Wonderful to have him. It would be great."

I could never have done that. But Helen saw to it. No one, least of all me, had thought at the time that I'd ever come back to the bank. It had not entered my mind at all. I was just looking forward to working on development in black Africa.

Following Bank of America's Problems While in Washington

LaBerge: Did you follow what was going on in Bank of America when you were in Washington?

Clausen: Not in great detail. And even less so when I was at the World Bank. Bank of America was a significant bank on the international scene. The board of executive directors of the World Bank was aware of that and of my past role here, so they did not want me to direct the World Bank into countries or areas where it might be perceived as doing it to help Bank of America. Not that I would, not that I could. The thought would never cross my mind. But the world runs on perception and not on fact. So no, I didn't

follow what was going on at Bank of America. It was perhaps two years after I left the bank before I began coming to an annual luncheon with retired executives, many of whom I had worked with -- Peterson, Beise, Baumhefner, Zipf, Carrera, Langsdorf, Bolin, Toupin, and some others. We talked for a couple of hours. “Schmooze” is the word. You kind of revisit yesteryear and tell how great it was. But those luncheons turned into “how sad it is the way the bank is going downhill.”

At those luncheons I also picked up some criticism by the current staff. A particular bone of contention was that there was a big effort on to hire a lot of MBAs in Bank of America.

LaBerge: This was during Sam's time?

Clausen: During Sam's time. I heard this particularly from senior staff who were not MBAs. There was concern that a new plan was in place to replace them with young inexperienced MBAs. There was a rumor that if you didn't have an MBA you'd never amount to anything in Bank of America. You couldn't be promoted. This of course upset some of the retired senior officers who had been excellent executives but who had only had a high school education. My years at Bank of America had taught me that education and the number of degrees you have is no indication of how bright you are. I carried around in my head what a shame it is that we turn our backs on people like Clarence Baumhefner, a high school graduate, and Joe Carrera, a high school graduate, and Stan Langsdorf, a high school graduate.

LaBerge: So you knew things weren’t going well.

Clausen: Yes, I did know that things were bad. When the annual meeting of the World Bank and the IMF were about to take place in Washington, Rudy Peterson called me. Rudy had been attending those meetings for a very long time. He said, “Could I talk to you when I come to town?” I said, “Sure. Come on out to the house. I'll pick you up. We live right in the district.” So it was just the three of us. Peggy fixed the lunch, and we ate at home. In that discussion, we talked about succession candidates in the bank, but my name never entered into it. You probably know more than I do, because I think maybe you've talked to Rudy about this.

LaBerge: Yes, but he didn't go into this much detail.

Clausen: We talked about succession and the problems with the bank, but never one word about the bank being interested in having me come back. It was at a different level.

The Board's Increasing Concerns

LaBerge: Wasn't the board increasingly concerned about the public's confidence in the safety of their deposits?

Clausen: That was definitely a growing concern. Banking customers have a choice in where they deposit their money. And after three years of bad news, there was a perception that Bank of America was in trouble and we were losing deposits, and some depositors were taking their money out. One of the last straws was when a rumor started that Bank of America was insolvent. I am told that Sam went on statewide radio to proclaim that Bank of America was strong and solid. His unstated message was, "Don't take your monies out. Bank of America is safe." But when the situation reached that stage, the board was ready to make a change in leadership.

Called Back to Bank of America in October 1986

LaBerge: Can you tell me the story of how you were asked to come back to take over Bank of America?

Clausen: I want to say at the beginning that I never dreamed of coming back to Bank of America. It just had never occurred to me, and that's the truth. That's important.

LaBerge: It is important, because I've read that people thought you did think you'd be asked back. So I'm glad you're setting the record straight.

Clausen: Well, maybe that comes from a call I received on October 4th, the Saturday night previous to the Monday October 6th board meeting in which the directors decided to change management. I got a call from Rube Mettler, one of our key directors. I didn't realize the importance of it at the time. I didn't realize it until well into the next week. Rube told me that things were really getting very, very tough in California with the bank, and did I have any suggestions for who the board could think about hiring to replace the current management. He reported that there was a lot of discussion in the board -- in executive session and in small groups of board members. Mind you, the board met twenty-three times in 1986, instead of the traditional twelve times. And their meetings were long ones, starting

Sunday noon, going through dinner and most of the next day. It was a very, very difficult and traumatic time for the bank.

I have good notes from this phone call with Rube Mettler. I have a tendency to put a pencil in my hand when I'm talking and even when I'm standing. I stand a lot when I'm on the phone because I think better when I'm walking around. My notes show that Rube and I talked about a couple of names. "What about so-and-so?" He had just retired from a huge well-known, world-class company in America. Then again, "What about so-and-so?" He had just retired from a big insurance company. We went through a number of names. We even talked about a prominent banker who had retired as CEO of a big bank. There were reservations about everybody, as there always are.

Then Rube said, "Well, how about you, Tom?" I said, "Oh, no. That's not in the cards. I've done my thing, and I've been out of it now for almost six years." Then I immediately said, "Well, how about you, Rube? You know the bank." He had done some special things for me when I was CEO before I went to Washington. I think I mentioned how he had done some research, mostly in response to some very severe criticism the board had received from Claire Hoffman, the daughter of our founder, who thought that we had become a Wall Street bank and that we had forgotten the little people. I had asked Rube, "Would you look into it and report straight back to the board? This is important. It should be done independently and I should not be involved at all because I'm the one being criticized for making this happen."

So Rube understood the bank very well, and he was a very thoughtful person, much admired by all, and that's why I suggested he consider taking it on. But he said, "No, we're not talking about me. I've done it." I said, "I've done it, too. I'm long gone. I don't know what's going on." But Rube persisted: "Well, Tom, are you saying that if you were asked, you'd say no?" I said, "Rube, that's a hypothetical thing. I've not been asked, and I haven't thought about it at all. I have great empathy for the problem, but it's never been done before, somebody out almost six years being called back. It's just not going to happen. Not me." But he pushed me on the question, "You mean you would say no if the invitation were offered?" And I waffled. I didn't reject it out of hand, because I hadn't thought about it. And maybe I left the door open a little crack.

LaBerge: Because this was out of the blue.

Clausen: Out of the blue. The idea was kind of shocking.

Then Peggy and I had some friends over for dinner on Monday, October 6th. I was mixing the drinks and helping to serve, and Delmy was in the kitchen helping Peggy with the meal. Delmy worked for us and actually came with the house we'd bought. She was a Costa Rican and a wonderful young person, so we kept her on. Delmy Contreras was her maiden name. We went to her wedding, but we didn't understand what was going on, since it was all in Spanish. Delmy worked daytime only, but we asked her to work that Monday night.

LaBerge: And this is in Washington, D.C.?

Clausen: Yes, and we were hosting a few government friends and their spouses. About seven-fifteen or seven-thirty Washington time, just as we were going into dinner, the phone rang. It was after four o'clock here in San Francisco, and Rudy and Jack Beckett were on the line. Jack was the chair of the executive committee of the BankAmerica board of directors, and they had just finished a board meeting. They told me that the board had changed management that day. They had asked for and accepted the resignations of Sam Armacost and Lee Prussia. Jack called to tell me that and he asked me if I would consider coming back. I was in a state of shock. It never had occurred to me, and that's the truth.

After a long conversation I said, "Yes, I will." I said yes because it hurt me very much to see the bank go so far wrong. In all humility, I honestly think that the bank was great when I was there. It did well then. Every year was solid and better than the year before, and all of us in the bank were looking over our shoulders at our competitors. I really didn't feel a responsibility for the bank going under because of any lousy deals that occurred when I was the CEO. So I said yes.

That phone call lasted maybe an hour and fifteen minutes. I was just exhausted and shocked. When I came back into the dining room, they had just finished the main course and were about ready to serve dessert. There were all seated at our oval table which, by the way, used to be owned by Henry Kissinger. That's why the sellers could add another $3,000 to the price of the table when we bought it. But it's a marvelous table. It seats fourteen when it's all together and you can separate it into two free-standing tables seating six each and seat eight at the oval part. So you get to seat twenty around the table. But we like a one-conversation dinner, and fourteen is just the right number. If you have a loud voice, then you can dominate the conversation, and I have a loud voice.

I had just had a couple of bites of my dessert when the phone rang again. It was another director, Phil Hawley, calling from Los Angeles. He had been part of the board discussion and had just gotten home. He was calling me on behalf of Rube Mettler as well as himself, and he wanted to know what my decision had been. I said, “Well, I'll show you that I'm not terribly bright, but I said yes, I would consider coming back.” But I was just drained. I was just drained.

But Phil sounded happy that I had said yes, and that phone call lasted fifteen or twenty minutes. Then I went back to my guests, and people were leaving. So I said, “Thanks for coming over.”

LaBerge: Did they have any clue what was happening?

Clausen: Oh, no. And I said afterwards to Peggy, “Peggy, I am so drained. I'll tell you tomorrow about my phone calls, but would you excuse me? I am just not up to helping you and Delmy clean up.” So I went to bed. The next morning, I got up and went to the office, made a few phone calls -- to directors and stuff like that. Even later that Tuesday night I did not have the courage to tell Peggy what I had done. But on Wednesday, I told Peggy that the phone calls on Monday were asking me to come back to the bank. “I know the bank is messy. I don't know very many details. I know what I've been reading, and you were here a few weeks ago when Rudy had lunch with us at the time of the World Bank and the International Monetary Fund meeting. You remember what he was saying then.” I told her I had said yes to the request, and I hoped she didn’t mind.

She said, “I don't mind at all.” I said, “Well, it's going to be tough, and especially tough on you, because the press is not going to give the board a lot of plaudits. The papers have it that I caused all the problems, and they're going to say it was stupid not to make the change before now.” For quite some time there had been great pressure on the board to change. That pressure came from Paul Volcker and the Federal Reserve, pressure came from the regulatory authorities, and pressure came from the directors’ own awareness of the problems. In February of that year, Sandy Weill, [former president of American Express], had made an offer to bring $1 billion of new capital to BankAmerica Corporation if the board would appoint him as the new CEO.

LaBerge: How did the bank respond to that?

Clausen: The bank turned it down. Let me make a parenthetical comment. I think that offer was not discussed by the board, but I really can't confirm that. I

did hear some suggestion that it wasn't reviewed there, that it was turned down by Sam and Lee, or just Sam, with maybe some private discussions with board members, but that it didn't have a full board discussion. But I don't know the accurate answer to that. Parentheses closed.

And then there's also a question mark that the history books will have to sort out as to whether Sam had encouraged Joe Pinola at First Interstate Bank to make the offer to acquire Bank of America and that Pinola had, in essence, been invited to make an offer, unbeknownst to the board. I've heard that speculated, but I don't know the answer and life's too short for me to dig into that. And I'm not terribly curious about it.

Return to San Francisco

Clausen: My return to the bank was not public knowledge yet, so I kind of wanted to sneak into town. I didn't want to stay on Nob Hill, because in all my years as a CEO, I'd gone up the hill a lot and they knew me well there. But I never spent much time at the Clift and I'd never stayed there. So I came in on a Saturday night and I moved into the Clift Hotel for two weeks while Peggy stayed in Washington to sell the house. Later I got a two-bedroom apartment for ninety days at 21 Broadway, a high-rise apartment building, and since I hate apartments, I then asked Peggy to find a house.

Then I met with Tom Cooper, who had the title of president and was the bank's chief operating officer. The board was going to meet the next day, and he knew what was going to happen. I had a four-hour dinner with him, talking about the problems and the issues that he knew.

Clausen: I was up until about one a.m. San Francisco time, which was four a.m. in Washington, D.C. I was very tired and I slept in the next morning. I was to attend the board meeting that day so I made notes of what I wanted to say and then I went to the meeting. I told them there was a lot of risk for the board in hiring me back. I recall saying, "The local press will report that the board of directors is making another stupid, wrong move by hiring the guy who caused it all. So you're going to take a lot of heat, and I'm going to take a lot of heat." I said, "It's not going to be easy, and you're going to take a lot of criticism, and I'm going to take a lot of criticism. But trying to avoid criticism is not the objective; the objective is to fix it. And yes, I think I can fix it. I'm fairly confident that I can fix it. And I'm prepared to do it. If the board is willing, and we work together, and the economy stays healthy and continues to expand, we will do it."

I didn't give them my old truism about "Keep your revenues above your expenses." That evolved later. I am critical of the former management, because the problem was fixable. If they'd had the same philosophy and were able to implement it, Sam Armacost could still be here. The problem was fixable. Bank of America has the greatest franchise of any bank in the world. And our history is the greatest philosophical foundation a bank could wish for. To this day in 1996, we pay homage to our founder A.P. Giannini. We respect our founder and we try to follow the principles that he espoused. In retrospect A.P. said something that applies to everything today. You can quote A.P. on any problem we have, any success we have, and it applies. So there was a solid philosophical foundation that could have been drawn on as well.

Analyzing the Problem

LaBerge: How did you approach finding out what the problems were at the bank?

Clausen: I asked for the last ten annual reports and a horizontal spreadsheet. I got the macro figures and I started posting them -- income, expenses, and where the income is coming from, et cetera. When I started to spread the figures from the last six years out on my yellow spreadsheet and worked some ratios, the obvious problem just jumped off the page. I saw it the first night I was back.

I told you the story of my mother giving me a lot of good advice growing up. She said, "If you ever get in business, son, just remember, make sure that your income exceeds your expenses. And when income is going downhill, something's got to be wrong. Remember that. And remember, it's a matter of expense and income, and you can *control* expenses. You can only *influence* income. And don't forget that."

And that's exactly what was wrong at Bank of America. But Sam and Lee didn't know how to fix it. The cost of generating a dollar's worth of earnings had grown dramatically after I had left. Now it was way out of whack. We were investing in big overhead and administration, and the overburden was smothering the bank. In 1980, my last year before I went to Washington, the expense to revenue ratio was about 59 percent. In those days that was pretty good. But at the time I returned some six years later, it was up to 84 percent. This meant it cost 84 cents to make a dollar. But the average of the other top ten banks in the United States was in the high 60 percent range. So you can see that Bank of America was like a racehorse having to carry far more weight than other horses in the race.

It was crystal clear to me what had to be done. We had to get focused. We had to cut expenses. We had to sell some businesses. All that came to me in only two nights. But it hadn't been done under Sam Armacost and Lee Prussia, and the bank was suffering.

First Days Back at the Bank – Management Forum

LaBerge: It's hard to imagine how stressful your first few days back must have been. Can you tell me what they were like?

Clausen: The press were just terrible. The announcement that I was rehired was made on Sunday and released over the wires. So Tuesday morning, reporters wrote what a gosh-awful thing the board of directors had done: they rehired the guy who caused all the problems to begin with. Besides, he's aloof.

Monday was the Columbus Day holiday. On Tuesday morning I hosted the meeting of the Management Forum down in the A. P. Giannini Auditorium of this building. That was a group of about 150 senior officers in the bank. I gave a speech on this once: "Never let them see you sweat." When you're in trouble, you've got to appear confident, even though you may be scared to death.

I think it was Ron Rhody who introduced me saying, "I'm sure that you all have read the reports and know that the board of directors have made a change in management. Sam and Lee are gone and Tom Clausen has been hired back as the new chairman and CEO. Most or many of you know Tom. Tom will make a statement and then he'll field your questions. So...Tom, it's all yours".

So I made a rather lengthy statement. There was a lot on my mind. The night before I had thought of what I wanted to say, and I made notes. I may even have used some of the notes I'd made for the board meeting the prior Sunday afternoon. I told them, "We can only solve our problems if we have trust in ourselves. We've got to work together. We've got to be candid. We've got to have confidence it can be turned around." I said, "I didn't come back to rearrange the deck chairs on the *Titanic.*" I stressed, "Now we have to really focus on the customer. It's the customer that counts. The customer doesn't have to bank with us. He's got choices. And the customer is reckoning that we've got too many problems so he's going elsewhere and we're losing business. We have to fix that."

Then I asked for questions, and there weren't any. Everyone was kind of in a state of shock, which bothered me. I had never before had difficulty in warming up a crowd, inviting questions, and getting discussion going. I would even say that I'm rather good at it. I could even handle shareholders' meetings in an informal, friendly way. But this group was in shock. Finally, Ray Timmerman asked one. I used to work with Ray; I was his boss in Corporate Finance. And eventually a few more people asked questions.

I told the group, "We have to communicate candidly with each other. I'm doing that now. I'm putting my life in your hands, and I don't expect to read about this in the paper tomorrow morning. We can't solve our problems in the press." The next morning I opened the paper and there was my direct quote. So that was the last time I ever convened a meeting of the Management Forum.

Barbara Desoer

Clausen: I had met my administrative assistant for the first time that morning.

LaBerge: Was this Barbara?

Clausen: Barbara Desoer. She's terrific, and she helped me immeasurably with support and advice. I was now on the fortieth floor, but not sitting in the corner office, which is traditionally where the CEO sat. Sam Armacost was still there. So I was on the other side in a vacant office that had once belonged to Al Zipf. Barbara's desk was located over on the other side, outside of where Sam was. She came over, and we began walking around the fortieth floor to where the Managing Committee was going to meet on the California Street side. I asked her if she was scared, because she'd been at the meeting of the Management Forum. She said, "No." I said, "Well, Barbara, don't tell anybody, but if you want to know the truth, I'm just scared to death."

Barbara turned out to be really terrific. She knew the retail side of the bank, and she knew what really needed fixing. I'd never had a lady administrative assistant in my life. They'd always been men. A lot of good ones. Bill Siart was one and he went to First Interstate and became president there. Dave Coulter was my last administrative assistant before I went to Washington, and he participated in a discussion with me on whether I should leave or not. I trust him like few others. And I trusted Barbara Desoer.

I've had quite a few administrative assistants in my professional career starting as a CEO, both here at Bank of America and then in Washington for those five years and then back here for three and a half years before I retired for the second time. Barbara's in the top five. Sam had two administrative assistants and the other one I didn't care for at all. She seemed only interested in furniture. One night, about ten o'clock she wanted to talk about furniture in the office, and I said, "I don't have time to talk about that. For the moment, I'm happy with what I've got." I think she had been a speechwriter. But I didn't need that skill and I never have any admiration for people who are more interested in their furniture and the position of their desk than they are in getting to the substance of the business. So we did not get along. She didn't last very long with me.

LaBerge: Can you tell me the kind of advice you got from Barbara?

Clausen: Yes. She gave me advice all the way through this time, particularly on the needs of our retail banking operation. When I looked at the figures I'd laid out on our spreadsheets – the number of savings and checking accounts, the dollars of demand deposits, the domestic dollars in savings, market share and all of that, it was clear we were sick in our most basic business. Our market share was just going downhill. As a bank, you have to be strong in the domestic market in order to be strong internationally. You can't have one without the other. You need the local currency and dollars are the strong currency in the world. I had to ask, why in the world are we worried about market share in Italy, in lire, yet -- when we're not paying very much attention to the domestic market? Barbara Desoer really helped me figure out the retail side because she came from the retail side. I am more knowledgeable on the international side and the commercial banking and the wholesale side of commercial banking and the financial side of banking -- how we fund ourselves and all that -- than I am on the retail side. Barbara is terribly fair and I learned to have great admiration for Barbara Desoer.

An Observation from Henry Kissinger

I think I told you the story about Kissinger coming to visit -- or did I?

LaBerge: You told me off tape, so it's not recorded.

Clausen: Okay. Henry came to visit me on the fortieth floor, the executive floor of the Bank of America headquarters building. This was in, I want to say, November 1986. I had known Henry for a long time, and we're friends. I was escorting him back out front to the elevators, and the floor was kind

of empty and echoing. One of our senior officers was in his shirt sleeves way down at the end of the floor towards Glenhall Taylor's office and there was a receptionist, but nobody else on that floor that we could see. Henry said, "My God, Tom, this feels like you're having a warehouse sale! This seems empty." I said, "Well, Henry [laughs], we *are* having problems, or else the board of directors wouldn't have dismissed the former management and brought me back."

Immediately after, I talked to Barbara Desoer, my administrative assistant. I told Barbara about Henry and I said, "And furthermore, he's right. We ought to look like we're alive and healthy and strong and show that we're really confident." My words were, "Fix it." When all else fails, fix it. So we got some other people to move their offices up there. I said also, "I believe that we ought to look a little more professional with men having their jackets on. But I know if *I* go tell people that, they're going to complain, "Boy, the crabby old man is back again. He's nitpicking again." I told Barbara, "I'll bet you could find a way to get that done far more successfully and diplomatically than I could." The next thing I knew, everybody had their jackets on. I still don't know how she did it.

Going to Managing Committee

I went into the Managing Committee that first Tuesday afternoon. I told them my analysis of the problems and began the process of discussing how to fix them. I remember particularly telling them, "We've got to get back our strength in the domestic market, and that's the California Banking Division. We used to be premier, we used to be the best, we used to be strong, but we're losing market share. The only way we can have any hope, in my view, for us to climb the mountain and be the premier bank once again, is to fix whatever is wrong with the domestic retail market. That's the genesis of it all for us."

Setting a Policy of Candor and Honesty

LaBerge: As you set out to do this, it strikes me that your new administration had some major credibility problems to deal with. How did you deal with that?

Clausen: Credibility is all about telling the truth and doing what you say you're going to do. And at the time, a lot of that had to do with the bank's numbers. Frank Newman had been hired as the chief financial officer on October 1, 1986. I was hired six days later. In talking with Frank, I said, "Don't fashion stories. Tell the truth. Then you will never have to remember what you said a quarter before, or three quarters before. You'll

going to be caught for sure. So don't put yourself in that position. Tell the truth as you see it. Naturally, we want to have the best face forward that we possibly can, but don't lie, don't disguise the truth. Tell it as it is, and report it as it is."

Ron Rhody

We also had invaluable help from Ron Rhody, who was an outstanding head of public relations and corporate communications for the bank. He was damn good. Do you know him?

LaBerge: No, I don't.

Clausen: Ron was head of public relations for Kaiser Aluminum, and he'd been hired by Sam when I was in Washington, because John Bell, whom I had hired before him, had accidentally drowned in a swimming pool up in Sacramento. And Ron Rhody carried us through those very, very difficult days. He handled all the negative public furor around what was happening in the bank. I guess you read all the bad stuff about Bank of America -- how we were losing money and the board was crazy for not changing management. Then when they changed management and brought me back, the board was portrayed as crazy for bringing back the guy who caused all the problems to begin with. You've got to be a little tough-skinned in all this, and I guess it helps in those circumstances to be a little arrogant. I keep saying that, maybe defensively. I don't think I am really arrogant. It's the way I disguise my internal bleeding. Anyway, those were tough, tough years. Ron Rhody helped us get through that by putting a better face on things.

Seeing Federal Regulators as Helpers

LaBerge: You're a big advocate of strong communications. Did you try to foster more open discussions with all the key players when you came back to the bank?

Clausen: I did, but to do it well requires having the attitude that the corporation will be stronger by seeking those inputs. Take bank regulators for example. The regulators don't want to do harm to a bank they are regulating. They don't want to impede that bank or make it more difficult for it to do excellent work. They're not the enemy. And the bank on the other hand should look at the advice of regulators in a constructive way rather than in a critical way. That was not the case here in Bank of America in 1986 when I came back. Sam Armacost as the CEO and several others viewed

the regulators as the enemy. But they really weren't. This sounds like I'm patting myself on the back, but I'm not. I'm just speaking the truth as, of course, I see it. The regulators wanted to help the bank do better. But Sam was fighting the Comptroller of the Currency, in particular, on how much reserve should we have for criticized loans and classes of loans.

LaBerge: Like loans to developing countries or --?

Clausen: That, or too many loans to a given country, like Japan. That was our case at one time. The regulators thought that Bank of America had too much loan outstandings. They criticized the bank and gave it a demerit on its CAMEL ratings. Have you heard of CAMEL ratings?

LaBerge: No.

Clausen: CAMEL stands for Capital, Asset quality, Management, Earnings, and Liquidity.

The regulators could see what other banks were doing, and in their view Bank of America had too much loaned to Japan relative to the rest of our loan portfolio and relative to other banks. Everyone wants to have a good CAMEL rating. A rating of one is the best, and the highest CAMEL rating today is probably a two. We don't know. There may be some with a one rating -- possibly Morgan or even Wells -- but very, very few. A two is a pretty good CAMEL rating. If you get a four, that's barely satisfactory. If you get a five, you've got real problems. Back in 1986, I think Bank of America was a five.

LaBerge: So you look at the regulators as being a help.

Clausen: Oh, yes. One can disagree with the regulators, and that's okay. But it needs to be just like you and me disagreeing: we have respect for each other, and we're not throwing bricks. But if you're the regulator, and I'm the bank and my attitude is that you guys don't know anything and you're the enemy, if we dislike each other and we're really quarreling – well, the bank will lose. That's not the environment you want to have.

Meeting Regulators in Washington, November 1986

I remember the first time that Frank Newman, Glenhall Taylor, and I went to Washington to see the regulators. I had come back in October and this was November. The three of us slept in our house in Washington for several nights since Peggy and I had moved and we had spare bedrooms.

We went to see Paul Volcker at the Fed, Bob Clark at the Comptroller's office, and Bill Siedman at the FDIC, the Federal Deposit Insurance Corporation. Our purpose was to tell them what our plans were and what we were doing. In spite of it being so early in my return, we had a plan, even if it was, figuratively speaking, on the back of an envelope. We had a list of things that were absolutely essential to keep -- our core business. We had a list of things that were nice to keep if we could afford it, but were not essential. And we had identified some other things we ought to dispose of so that we could increase our focus on the essential things. We had done that list so fast we could have been wrong.

In October 1984 the Fed had asked each of our directors to sign a letter addressed to the Federal Reserve Bank of the Twelfth Federal Reserve District (John Ballis was the president, Bob Perry is now) that they would cause management of BankAmerica Corporation to have a primary capital ratio of at least 6 percent by December 31, 1986.

When I came back in October 1986, I found this letter. But we did not have a primary capital ratio then that was anywhere near 6 percent. So one of my reasons for going to Washington on November 6th, was to ask for more time. I wanted to show that the bank had new management. Frank Newman had only come to the bank six days earlier. Glenhall Taylor had been around for only a year and a half or so and was fighting with the quality of the loan portfolio, which was a big problem in those days. I asked for another ninety days to meet the minimum criteria of 6 percent for our primary capital ratio.

I've given a speech on this. Make a note -- it's a good speech.

LaBerge: Okay.

Clausen: I gave the speech in Chicago after I retired. It tells a bit of the history and a lot of my philosophy on regulatory authority is in there too.

LaBerge: How did the regulators respond to your request?

Clausen: I just got blank stares. The response was, "What else is new? A deal is a deal." Paul Volcker said, "We've heard this before." I remember telling him, "But Paul, you haven't heard it from me."

It made no difference. We were still going to be held to the 6 percent target for the end of December, just two and a half months away.

This was a real dilemma. We couldn't sell shares to get our capital up -- who would buy? We were losing money and we were not earning enough money. In addition the view outside was that the dumb, stupid bank and the directors in particular sat on their thumbs all those years letting the bank wither away without doing anything. And then when the Fed *forced* the bank to do something, when they put great pressure on the bank, what did they do? They went and hired the guy that caused it all in the first place, Tom Clausen! That was the view, anyway.

So that's why in seventy-eight days from October 12 to the end of that year, I disposed of $9.6 billion of assets of the corporation in order to get us to that 6 percent.

LaBerge: Do you think the Fed had the same view as you just attributed to the public? Was that maybe why Volcker wouldn't give you an extension?

Clausen: No. In my speech you'll find I said the Fed should realize if you put pressure on a bank, the bank will comply. If the bank says they can't, there's no excuse for that. The banks *will* react positively. I also say the banks should look at the Fed -- the Fed is not trying to kill us. But Sam Armacost had an adversarial view. When I was still in Washington after I retired from the World Bank, I was at the same meeting as Sam and we visited a bit over dinner. He told me about the problems he was having. He was particularly having a problem with Bob McNamara, who was now one of the bank's directors. He asked me if I could help him deal with McNamara. Bob McNamara is very bright and I'm sure he very easily figured out what was wrong in the bank and was very critical, as were the regulators.

When the three of us went to Washington that November, Bob Clark, Bill Siedman and Paul Volcker were all on our side, because we said we were going to clean it up. Paul knew me pretty well. I had tried to hire Paul some years earlier at Bank of America before I went to the World Bank. But his wife Barbara was concerned with earthquakes and she is suffering from crippling disease.

Paul was not in love with our high leverage. In the 1970s our leverage had been about 3 percent. I tried to explain to Paul that eight or nine billion dollars of our assets were in extra deposits because we were feeding those eight or nine billion dollars of surplus funds into the Federal Reserve system, which we didn't have to do. So when you account for that, our leverage was much reduced.

But be that as it may, Volcker, Clark, and Siedman had nothing but praise and applause for our conceptual thinking as to what we were going to do in order to reduce the leverage, improve our performance, and make ourselves a safer and sounder institution. We were going to improve credit quality, fix our leverage, become more conservative, strengthen management, et cetera, et cetera, et cetera. (I just saw *The King and I* on television.)

And at our first meeting of the bank's board, Frank, Glenhall, and I gave kind of a thumbnail sketch of some of our thinking as to what we as management had to do in order to right the ship, get us back on track, and win back our reputation, recognizing full well you can lose a reputation fast and it takes a long time to earn it back. The board was complimentary of our thinking.

A word about reputation. Even after almost ten years, and a number of years in a row with very good performance, BankAmerica Corporation is still winning back its reputation. It's not where it was. But it's getting closer every year.

Selling Banca d'America e d'Italia

LaBerge: What are the things you did to turn it around? What did you sell? What other measures did you take?

Clausen: Well, the first seventy-eight days were frantic. I told you we had to sell $9.6 billion of assets to get us to the 6 percent figure by the end of the year. The first thing we did was to implement the sale of BAI, Banca d'America e d'Italia, the Italian bank that A.P. Giannini had bought early in the century. It gave us about four and a half billion of the $9.6 billion.

` I learned later that when Armacost and Prussia were still in charge, they had discussed this option along with George Coombe, the head of Legal, and each of them disagreed with the other on what to do.

We talked with Manlio Sesenna, the executive in charge of Banca d'America e d'Italia at the time. Manlio is a terrific person, a good, solid banker who had been with the bank for a long time. He was not in favor of our selling it. Nevertheless, we had to move forward. We had a bid for maybe $660 or $670 million from a consortium of entities inside Italy. This would have been Italian money funding the purchase from us. We discussed the deal with Carlo Azeglio Ciampi, who was the governor of the Bank of Italy, the federal reserve bank of Italy. He was the Arthur

Burns, the Alan Greenspan, of Italy. But when we approached him with the deal, Ciampi said, “No way are you going to cause a $670 million balance-of-payment problem on Italy.” You see 97 or 98 percent of BAI was owned by an entity outside Italy, BankAmerica Corporation. So if we sold it to Italians, $670 million of Italian money had to fly to the United States. That's a balance of payment hit on Italy. I know Governor Ciampi pretty well and he told me, “Over my dead body. I'm not going to approve it, Mr. Clausen. I won’t sell it for a billion dollars. It would be great for you, but I’m not going to approve it. So forget it.” You can't win that argument.

So I said, “Okay, Governor Ciampi. If we abide by that and not sell it to someone outside Italy, what can you do for us? Would you promise me that when we decide to come back in with new capital that you will expedite it and not sit on it in a bureaucratic way and hang us up for months and months? If so, it's a deal.” So we shook hands. Then we sold Banca d’America e d’Italia to Deutsche Bank of Germany for about $603 million.

Other Measures to Effect the Turnaround, 1986-1987

LaBerge: This was a big step. What else did you do?

Clausen: Then we securitized assets -- obligations owed to the bank for loans on cars, consumer loans, credit card receivables, accounts receivables, and so on. “Securitized” is a code word. It means we tied loans into a bundle and put a string around it and dedicated the collection of those loans to the repayment of a bond that we sold to the public. Salomon Brothers and others would syndicate this bond and sell it. And anything left over was turned to the bank. The key here is that we were selling bonds, not borrowing more money. Borrowing would have kept it on our balance sheet. But with this strategy we sold bonds, got the money, and then the assets dropped off our balance sheet. I remember that accounted for perhaps a billion and a half or two billion dollars.

We did some similar things with commercial loans. We did a deal for our credit card in Europe. All of this reduced the size of the balance sheet and took weight off of our capital.

So let’s say the bank started 1986 with assets of $118 billion, and at the end of those 78 days, the end of the fourth quarter, we were down to $104 billion. In the first quarter of the next year we took another $5 billion of assets, securitized some more receivables, sold some more stuff -- a

mortgage company in the U.K. and one in Canada, a credit card in Asia, and so on. It lightened the load on our balance sheet. So let's say that from the time I came back to $118 billion in assets, over that nine-month period we took it down to about $93 billion.

And then we started to build it up from there, which gave us a nice capital ratio. We were making gains on some of the assets that we were selling; we were showing profits. All the while our underlying operations were still in red ink. We were not reporting losses. We kept two sets of books inside. And it was clear that we *had t*o start earning money on our operations. Pretty soon we were going to run out of furniture to throw off the ship. By that I mean that we were going to run out of assets we could sell for a profit and use the funds to replenish our capital.

But finally in the third quarter of 1987 we showed something like $7 million in operating profit. A small amount – but a *profit.* And that's how we did it.

Joe Pinola and the First Interstate Bid

LaBerge: What about the First Interstate Bank bid? You faced that right away, didn't you?

Clausen: That's right. The offer from FIB came out of the blue -- or maybe it wasn't out of the blue. I tried to track this down, not too hard, as to whether Pinola actually had been encouraged by Armacost to make a bid. I called it an unsolicited offer because when the offer came on October 5th, it was kind of shoved over the transom, through the keyhole, and through the spaces by the hinges onto our side of the door. I think it was an unsolicited offer, although as I said, I've heard the comment, "No, there was some discussion between Sam Armacost and Joe Pinola." Pinola was the head of First Interstate Bank and Sam might have given Joe some hope -- maybe not encouragement -- but some hope about the reaction to such an offer within our bank.

When the bid from First Interstate was received, it wasn't rejected out of hand, because the board had a fiduciary responsibility to give the most careful consideration possible to the offer. When I looked at it, I felt that the bid was so far off what the true value of the corporation was that it should be rejected. Our fair market value was conservatively more than their bid, and they loaded their offer with specious valuations. Their offer was worth far less than $20 a share, but we expected our book value to increase above $24 a share on a pro-forma basis in 1987. First Interstate

subsequently revised their bid to sweeten it, but when you took the air out of the bid, it was well below what Bank of America was worth. And when you looked at Bank of America's potential going forward, it would have been a crime if they had gotten it for that price.

Our management team -- Frank Newman, Glenhall Taylor, the Managing Committee, and myself –did a detailed analysis of this. We presented that to the board, and they concluded that we should say no.

May I also say for history, that had First Interstate bid properly – that is, had they bid an amount that truly was significantly more than our then market value, and had the amount been solid with no water in it -- then our board would have had a very difficult time to say "no" to it. That's speculation on my part. I don't say that because I want to tell First Interstate how close they came. But it scared the hell out of us. That offer came on a Sunday, and it was on the Monday following when I got the phone call asking, "Would you come back?" and it was on that Monday that the board asked for and accepted the resignations of Armacost and Prussia.

LaBerge: My memory of what I've read about the First Interstate battle is that you got the employees involved in it too.

Clausen: Once the board had given the First Interstate offer a full examination, they voted to turn it down. That happened at their meeting of January 5, 1987. So now employees in the bank could be asked to help fight off First Interstate. The first thing we did was hold a rally with employees down in the Giannini Auditorium. I gave a speech and at the end I put on a button with the letters FIB and a slash through it. It had a clever double meaning "No First Interstate Bank. No fib." Then we passed these buttons out. Soon all employees were wearing them. Then customers and friends of the bank began wearing them. After awhile you could see them on people in city buses in San Francisco. Eventually maybe fifty thousand buttons were printed up. We all wore those buttons.

<u>Joe Pinola</u>

LaBerge: Didn't Joe Pinola used to work for Bank of America?

Clausen: Yes, and more than that, Pinola used to be one of my colleagues when I was in Los Angeles. You may remember that I was a section head in Corporate Finance. Corporate Finance took large national accounts like General Electric, Packard Bell television, Hoffman television, the Sears

account, all in Southern California. I had a very strong team. Lloyd Sugaski was in my group, and he became the head of the construction group and later he became the senior loan officer for Bank of America. Dick Manderbach was another name you might not have heard of, but later he was in oil and became a senior officer as well. I trained a lot of people. And Joe Pinola was one of my guys.

I was a tough disciplinarian and I still am. I get around that by saying, "Well, I'm the toughest on myself." I simply tell people, "Do it right. Can't do it right? Then do it over." As a group in Southern California we'd go for coffee across the street. We were allowed a fifteen-minute coffee break, but we'd take twenty or twenty-five minutes. Our bosses looked the other way, because we were such strong producers. Yes, these were bull sessions, but we were constantly coaching. I'm a constant counselor. Constant counselors are sometimes called nags [laughter]. But I'd do it in a way that everyone respected me. I don't say everyone liked me or was buddy-buddy with me. Some were and others were not. And some even resented my coaching. They didn't last very long. But Joe Pinola was one of these young officers in our very strong group.

As a manager, I learned a lot from Francis Herwood, whom I admired greatly. To this day I date my little notes -- I learned that from Francis Herwood. No one could read my writing (I didn't learn that from Francis Herwood). But he taught me to pay attention to detail and to use a little methodology in the way I do things. He taught me how to make the tough decision when I was a credit officer. He used to make a list of the reasons why the bank should make the loan and then make a list of the reasons that we shouldn't. And then weigh the arguments for and the arguments against. That works. That's a Herwoodism, and many people then heard it from Clausen.

[Reference: Interview 8: August 29, 1996. Begin Tape 28, Side A]

Insurance for Bank Directors

LaBerge: The bank's directors were under a lot of pressure from many fronts. Didn't you face problems as well with director insurance?

Clausen: Yes, we did. Insurance premiums for director insurance went up, and by the time I came back, Bank of America could not provide outside insurance for its directors. Not only was management seen as bad but we were losing billions of dollars – the bank had $1.9 billion of underlying

operating losses in 1985 and 1986. All the directors were being sued. I wasn't sued because I wasn't here, although I might have been mentioned in the suits for my perceived role in past history. So we decided to provide our own insurance. It was like getting the left-hand pocket to provide insurance for those sitting in the right-hand pocket. But if we went down, the whole pants would disappear. It was a bit of a charade, except the directors knew that Bank of America would and could legally step in with the left pocket to cover any losses they might incur. As far as the shareholder of Bank of America goes, it was not external insurance. If we were sued and lost the suit, that would be a direct hit to the bottom-line earnings of the BankAmerica Corporation. It protected the directors. But that was all we could do at the time. We have outside insurance now, as we should. So if we get hit with a big lawsuit and have to compensate the directors for any losses they take, our shareholders won't suffer. However, it's true they're suffering in minutiae by virtue of paying the premiums for the insurance.

LaBerge: Were the directors being sued because of "mismanagement?"

Clausen: Yes, for mismanagement. It was asserted that the directors knew or should have known the condition of our loans, that we had a lousy loan portfolio, and in spite of knowing it, they were not setting up appropriate reserves, which is a charge against earnings. As a result, we were overstating our earnings, and these shareholders bought shares based on those stated earnings when all the time our directors knew the truth. Therefore, the directors were liable for the suit. That's the way that reasoning went.

LaBerge: How did you feel about management during that time? I mean, did you feel the board of directors should have done something before that?

Clausen: Oh, no. I think that's management's responsibility. The board of directors were doing their best, holding twenty-three board meetings in 1986. It's management's responsibility to get the job done. And you have to have the right people to make that happen. As it turned out we had them.

As an aside, I remember that Bob Abboud wanted to come to Bank of America. He had been at First National Bank of Chicago, then he went to work for Armand Hammer at Occidental. Then he worked for First City Bank in Houston. He screwed up at all three places. He was a multimillionaire. He told me off the record one night, "The way to get money fast is to screw up big, and then they buy you off, and you become wealthy." He also wanted to do a deal to bring in money to Bank of America. He said, "I'll report to you, Tom, because I respect you. But I

would like to get on the bank's payroll." So I knew where that was headed. I told Frank Newman about this at the time. I said very facetiously, tongue in cheek, "I could be a very rich man today by screwing up instead of fixing up!" Frank and I had a good laugh at that.

Sam Armacost as CEO

LaBerge: Can you give me an evaluation of Sam Armacost as CEO?

Clausen: Evaluating Sam Armacost gives me a few problems. Sam was and is a very competent and capable person. Sam's principal deficiency was lack of experience, plus the fact that perhaps Sam was too nice a guy. He had difficulty making the hard decisions, so the first 99 percent of decisions he can zip through very easily and competently. But the tough decisions -- the last 1 percent -- seem in retrospect to have given Sam some problems.

Nor had he any experience in going through tough times. Rough times. Sam was forty-two or forty-three when he assumed the responsibility of running a global institution managing $115 billion. That's a difficult job. Sam had the vision. And Sam was very charismatic. May I say in my view that he was more charismatic than Wente, Beise, Peterson, or Clausen. He kind of stands out. He is an attractive personality. People liked and do like Sam. But particularly in the area of making the tough decisions, I thought Sam fell a little short.

It could also be said that the chairman at the time, Lee Prussia, and Sam were not like ham and eggs or bread and butter. Their gears really never meshed. Prussia was very ambitious and when it became known in late 1980 that I would be taking the World Bank job on July 1, 1981, he was openly -- I didn't say "blatantly," but some historians might -- lobbying for the top job.

I appointed a search committee of outside directors to work only with me in selecting a successor for the CEO's job of BankAmerica Corporation and of Bank of America NT&SA, the wholly-owned subsidiary bank. Franklin Murphy of the *Times Mirror* was the chair of that committee. Franklin was a wonderful director. Very eloquent, very articulate, and a straight arrow. He was a very clear thinker, and I admired Franklin. And after interviewing the two candidates -- Prussia and Armacost -- the committee agreed that Armacost was the best choice. It was very clear in my own mind that Armacost was the best man, and I'm sure that rubs off on the board. The board is always a little reluctant to fly upstream or go against the wishes of the CEO. But the choice of Armacost was a keen

disappointment to Prussia. After I left, the two really weren't close, socially or personally. Their chemistry kind of mismatched. Prussia was an economist and not a banker. Armacost was a banker.

I've often wondered in my own mind whether we had done right by Sam in shaping successions so that Prussia would become the chairman. Chauncey Medberry was the chairman when I left. He took the job of becoming the chairman of the executive committee, which we made a committee both of the corporation and also of the bank. Prussia became the chairman of the board and Armacost was the president and CEO. Prussia was 52. Prussia was ten years older than Armacost, who was 42. Prussia really wanted the job. Sam did not openly lobby for the job, but reacted positively to the suggestion that he might become the CEO.

I guess I have a bias against those who are lobbying openly, perhaps blatantly in Prussia's case. It builds up a negative reaction in my own mind. Hopefully I have equal admiration for those who are very competent and don't lobby. Let the merit of their performance call the shot rather than doing strange things to lobby for their own advancement. I always have acted that way personally, and I still do to this day. Aggressive women turn me off and aggressive men turn me off. And so do aggressive politicians.

LaBerge: Can you elaborate on what you think of Armacost and Prussia's stewardship of the bank?

Clausen: I would say Sam did not do a good job, and the reason he didn't was because of the 1 percent hard-to-make tough decisions that he didn't make. Perhaps it was because he was still young and still wanted to be liked and therefore was a little soft. The fact that Prussia was keenly disappointed contributed to the lack of a good working relationship between those two. In my own mind, had we had a stronger chairman, one more supportive and more of a partner with the CEO, the affairs of the bank would have been handled differently. This is particularly true where the principal problem with the bank was that expenses had gone out of control.

I think had I to do it over again I would pick Sam. I'd give him another chance. But I would put a stronger person with him. I'm disappointed in Sam, but I'm down on Prussia, and I tend to blame Prussia more than I blame Sam.

I know the Armacost family. It's a wonderful family. I know Mike Armacost, who was in the State Department. Now he's the president of Brookings Institution. He's the eldest of three sons. Sam is the baby; Robert in between is the president of a college or a small university in Florida. The father was also the president of several universities, including the University of Redlands in Southern California. So the family is a rich family, it's an intellectual family, it's a fun family, it's a very attractive family, and it's a close family. All those attributes I admire. But I don't admire Sam, who is very bright and should have had the courage to do something about the growing problems. Or run up the flag and be more candid. But I understand that Sam, even with visitations with members of the board, lost his ability to move the big morass called BankAmerica Corporation forward. I'm sorry for that.

LaBerge: What decisions do you think he should have made?

Clausen: Well, I thought his decision to buy Seafirst Corporation was wonderful. Steve McLin, who headed mergers and acquisitions for the bank, had a big hand in that. Even Sam's decision to buy Charles Schwab & Company was good, even though it didn't last very long because Schwab, the discount broker, could not work under the thumb of the Federal Reserve Bank and the regulation it put on the whole entity called BankAmerica Corporation and its subsidiaries. Those were good moves by Sam.

But some of the moves he instituted had questionable results. He tried to motivate the corps of senior officers through the employment of a psychologist, Dr. Ichak Adizes, then associated with the University of California at Los Angeles. But I think all it did was to put a lot of rhetoric in the air and leave no physical chicken tracks of improvements for the time and effort it took. Some of the same can be said for the management of the systems and equipment side of the bank -- the so-called computer part of our backroom operations -- where rumor has it we spent maybe a billion dollars with really nothing to show for it. We had hired the computer whiz from American Airlines --

LaBerge: Max Hopper, is that right?

Clausen: Max Hopper, yes. You're fantastic. I never met Max Hopper, but I know his reputation. Highly, highly regarded, and great for airlines. He was and still is brilliant. I understand Max went back to American Airlines because I've talked about Max with Bob Crandall, who was the CEO of American Airlines. I've never met Max Hopper to this day. He did great for the airlines but he spent a lot of money here at Bank of America without really

showing what we could do. It’s been said that he may have spent a billion dollars, but we can't figure out whether we got one penny of benefit from that. My view is that Max was too far advanced, too far out in the future, when we needed computer help now. I give more credit to the person who came after Max Hopper, a guy by the name of Lou Mertes, whom I had to fire because of MasterNet problems. He was followed by Michael Simmons, who I thought gave a practical application to our computer management. He didn’t have us jumping across the board to redo the whole thing at one fell swoop, as I believe Max Hopper was trying to do. His focus was on taking pieces of it and really improving it. His view was that over a period of years, when we're done we’d have a pretty sophisticated state-of-the-art system, which is what we have now. And our current computer head, Marty Stein, has continued on the good works that were started by Mike Simmons. And now we are at the state of the art, or very close to it. And we're still improving.

Sam should have known all the expenses that we were undergoing. And also that the troops were in a state of an uproar. A lot of decisions went unanswered. And to repeat a cliché, although I've given several speeches on it, a bad decision well articulated is sometimes better than no decision. But there were a lot of no-decisions during the Armacost days as profits dwindled down every successive year of Sam's management.

So I would have put a stronger chairman in as a partner with Sam. Sam had good ideas. One big problem was with his execution of good ideas. It was not for a lack of intellect, but maybe for a lack of experience.

LaBerge: What other problems did you face when you came back to the bank?

Clausen: One attitude that I found pervasive was what I called a “postage stamp mentality.” In 1985 and 1986 the bank had operating losses aggregating $1.9 billon. It was a very big hole. But instead of putting every ounce of attention on the biggest problems, one way they were going to save the bank was to close the Archives. But this might have saved only a few hundred thousand bucks a year. And furthermore, they were going to sell off pieces of the bank’s art collection. Meanwhile, the really big issues were crying to be addressed.

I believe very strongly in corporations having historical archives. That came from listening to Professor Hauser, who gave a lecture to our Advanced Management Program at the Harvard Business School. I was terribly impressed with his talk on the importance of preserving the macro parts of a corporate history for scholars and other uses. When I became

CEO the first time, I set up an archives in Bank of America. When I came back the second time, I practically cried when I found it had been closed. I authorized it to reopen right away with staff to support it.

The bank had a wonderful art collection. Here in this office I'm looking at a wonderful Vignoles, who is maybe the late French Impressionistic.

LaBerge: Oh, it's by André Vignoles.

Clausen: That painting is maybe worth $100,000, and maybe we bought it for $25,000. Those are maybes in there. I love that picture. Clark Beise had it in here. But at the time, we were selling paintings. We had Max Ernst, we had some Russells on the fortieth floor. I asked where they were, and we had sold them. We had a wonderful lady named Bonnie Earls-Solari who is the art historian for BankAmerica Corporation. I'm terrible on female names. I can remember men's names, isn't that strange? I'm not totally a male chauvinist, but I guess I am a little. I'll lean a little bit on that.

LaBerge: My husband told me the same thing the other day -- that it's easier for him to remember a man's name.

Clausen: Even after hearing a name time and time and time again, I can't remember it. That's why I have my memory sitting outside: Helen. She's wonderful. When I say, "Remember the number-three guy for the Soviet Union who came in to see me after I had retired, and he sat right there. There was Gorbachev at the top, and then two guys up here, and this guy really was number three. What was his name?" And Helen will usually come up with it. Or she'll look at her notes and then she'll come back in five minutes and give me the name.

LaBerge: So when you returned to the bank, you concluded that management wasn't doing all the right things.

Clausen: They could have done more of the right things and done them a lot faster. Let me make the point with an analogy. It may be overstated, and it may be wrong on some points, but it makes the broad macro point: Bank of America was a ship taking on water. And what the bank was doing before I came was in essence lightening the load of the ship by throwing stuff off the deck so it would ride higher in the water and therefore go faster. So when I came back I said, "Well, why don't we go down and plug the holes and stop taking *on* all this water?! Yes let's keep lightening the load and throwing out the furniture, but let's plug the holes."

I didn't sense that they were doing much plugging of the holes before I came. And that's the way I described it to the Managing Committee, and I still think about it that way. Because had they plugged the holes, they could have gradually re-floated the ship. They all had mothers too, and maybe their mothers also told them, "Make sure your income exceeds your expenses—."

LaBerge: Oh yes, make sure expenses are less than revenue…

Clausen: Make sure that your revenues exceed your expenses. You can control your expenses. You can only influence revenue enhancement over time.

Employees as Part of a Team

LaBerge: Another problem you must have faced was the morale of employees. They'd been through so much -- years of bad news that just kept getting worse. What did you do?

Clausen: We got the employees involved. It's important to communicate fairly and squarely with employees. I have strong faith that people want to do what's right, and they want to do it in the right way. But the right things have got to come from on top – by that I mean that the company's leadership has to set the right goals for everyone to work towards. And then you have to communicate your goals and vision in ways that capture the support of the employees rather than antagonism. Morale was bad enough when I came back. Yet I knew we were going to have to reduce staff even further to make ourselves more efficient, and at the same time try to grow the company.

How did we get employees' support? You do a lot of things. Basically, you do a lot of communications. We did that in a number of ways. We had a lot of staff meetings up and down the state to tell people the problems of the bank so our staff would understand and could contribute to the solutions. Two or three times a month I'd invite a group of ten or twelve or fifteen key people for lunch and we'd talk. I'd give them a little message and a pat on the back. I gave a lot of speeches. My strategy followed the old line, "Never let them see you sweat." In essence, I tried to exude confidence. My messages were: "We're going to make it. We've got a wonderful franchise. We've got great people. Things are coming together, they're more focused. We got rid of some things that were nice to have, but they were not essential things. And now we're focused on the essential things. And we're in the process of rebuilding the bank. So have faith." I couldn't say, but I came close to saying, "I'll guarantee it."

I have a lot of confidence. Always -- in this bank and my own abilities. I try not to show my ego in an unpalatable way. We all have egos -- you have ego, I have ego. You can't really amount to very much without an ego. There are some people who show their egos. Ross Perot comes to mind. He's a showman. Others have got very strong egos but are very quiet people, like Clark Beise. He was very quiet. Ross Perot is way over here [gestures], and Clark was over here. But Clark is just as dedicated, just as competent in the long haul and in the course of action. I classify myself as a listener, as a quiet person -- Norwegian stubbornness but yet in an open receptive way. I won't say I've never lost, but I've always classified myself as a winner. I win at everything. I'm lucky.

Trust Breeds Trust

LaBerge: I think it requires a special attitude on the part of the leader to get people to connect with your goals. How did you do that? What was your own attitude?

Clausen: Well, I trusted our people. I think you get trust by giving trust. People in our organization are far smarter than we sometimes give them credit for. I strongly believe this in the marrow of my bones. Our employees in the Bank of America were going through hell. It was really traumatic to think that your CEO and your chairman were in essence fired summarily, on a Sunday, yet. That's traumatic. So where do you go from there?

I felt that people had been through enough that I wanted to do what I had to do without being, as Tom Deane had counseled me, a son of a bitch. I believed we had a lot of good people who would respond by trusting that they wanted to do what was right, and do a good job. So I began holding a lot of staff meetings. For good or bad, I was known to many of them. I left when things were great. The seventies were upward and onward. Now times were different, but open communications were more important than ever. Management needed to know the problems and employees needed solid direction to fix things. So I talked with both domestic and international people. I talked with both line and staff people. I talked with evening shift people in the data processing center.

I'm a philosopher, and I really believe that trust breeds trust. Faith gets back faith. If I trust you, there's a better likelihood that you're going to trust me. There are cynics around who don’t believe that and, well, that's part of real life too. But take press relations for instance. The odds are that you're going to get better treatment by the press if you're candid with the press. Now there's a little role-playing in here too – you want them to

know that you really trust the press and you're willing to talk to them. I tried to take that attitude. Who can tell a story better about the problems within, say, a big organization like Bank of America or the World Bank than the CEO himself or herself? If you're sincere, you gain greater credibility and greater impact. That could be the reason why I am perceived, and I guess accurately, that I am very sincere about a lot of things. I rarely joke. I've never told a public joke in my life. I might have done it once and bombed, so never again. I don't repeat that.

Having said that, I felt I couldn't put all the issues on the table with employees just then. You couldn't tell them that we have a plan to reduce our staff by 10,000 people. You couldn't tell them, "Well, we're thinking about selling your group or closing it down," for all the obvious reasons. You don't want to scare them and make them freeze up. You don't want to cause panic. You don't want to have them jump off the bridge. You have to be careful. But you can tell them how bad things are. And people are a lot smarter than managers tend to think people are. I think the public, the voters know pretty well what the realities of the political side of our lives are, and they vote accordingly. Sure, lobbying and ads and rock-throwing and mud and all that can be employed to influence voters, but they are swayed most of all by their down and out basic understanding of what needs to be done.

[Reference: End tape 10, side A -- Begin tape 10, side B]

So even though we didn't report our plans to eliminate 10,000 jobs, that was our focus. We had no choice – we had to get our expense-revenue ratio down. But I found you can talk about the same thing without dragging out the scary numbers. Our expense-revenue ratio was indeed too high. I had many, many, many meetings with key managers and other senior officers did too. We got twelve to fifteen experienced managers in the room, not necessarily branch managers, but managers who had oversight of more people, and we'd say, "You know, in 1979, we had an expense-revenue ratio of 59 percent. That's how much it cost us then to generate one dollar of non-interest income. And now it's 84 cents. Something's wrong, wouldn't you say? And the average of our peer group, say the top ten banks, is close to 65 percent. You have to help us get that down."

I'd tell them that we can invest a lot of money to increase revenues, but that is not a sure thing. Then I'd give them the anecdote that my mother told me when I went into business – to make sure my income exceeds my

expenses, and remember that you can only influence income, but you can control expenses. So you've got to work on the expenses. Then I'd tell them that we have to reduce expenses. We have no choice. But at the same time, we have to increase income.

Paternalistic Past

A word about being overstaffed. This was due to many reasons, but one was that we were in transition from being a paternalistic institution. We had sentimental affection for our employees, and in the past that translated into almost lifetime employment. We were maybe among the most paternalistic of banks, but that attitude was present in almost all banks. In earlier days, if you worked for one bank and I was the CEO of another bank, I would not recruit you to come to my bank, because that would be against the rules. It was kind of an unwritten law. But not today. Not today at all.

Setting Goals High

LaBerge: You set some pretty high goals. But then you've done that a lot in your career, and you've won.

Clausen: I've overwhelmingly ended up being a winner more times than a loser. I don't like to lose. But I'm not so driven that I believe winning is everything. I've thought about this a lot in my life, and I've concluded that the *way* you win is important. If you miss achieving the goal, that's not a disgrace if it's the *right* goal. The other thing that comes to mind -- the arrow goes where you aim it. So aim at the right goal. If you pick a goal that you think you're going to achieve, and it's not a "stretch" goal, then you may only end up feeling good about achieving mediocrity.

Take the University of California at San Francisco capital campaign that just finished a few weeks ago on June 30. We started thinking in terms of $400 million, but we kept raising the goal before we announced it. We almost settled on a goal of $500 million, but then I was in a conversation with Juli Krevans, who was then the chancellor, Kathleen Kane, the vice chancellor in charge of development, and maybe a couple of others on the so-called campaign cabinet. We decided, "Let's set it at 530. That's a stretch goal." Well, we got $543 million.

Take Carthage College. Carthage College really had a goal of $20 million. But the president and I and some others wanted to set it at $25 million -- a nice round sum. Well, we got $26.7 million.

The arrow goes where you aim it, so make sure that you've got the right goal. There's no disgrace if you have a challenging goal and you miss it. I think it *is* a disgrace if you set an easy goal and then feel good about achieving it. It's far better to reach for a stretch goal and miss it. The right goal is often hard to figure out. What's a right goal for the University of California? I talked to Chang-Lin Tien this morning and I said no to something that Chang-Lin wanted me to do, for a lot of reasons that I won't explain now. But is a billion dollars really a stretch goal for U.C.? Maybe they ought to set it at a billion and a half. You always have to ask those questions.

Figuring out the true potential of an organization or situation is an interesting challenge to me. General Electric Corporation is one of the great corporations, not only in the United States, but in the world. But is GE's performance that good because Jack Welch provides good management? I wonder what General Electric would do if it had *really* good management. Those are gray areas that businesspeople think about. So often we give credit to heads of organizations because the entities they represent are doing well, but those people really aren't worth all that much. Perhaps if the entity had a really good person in there, that entity would perform far better. It's a gray area. So when I came back to Bank of America one of the most important understandings I had to get was what was the *true* potential of the bank in its current state? And then set that in my mind as the goal we would work to achieve.

1986: Hiring Someone to Deal with Third-World Debt

LaBerge: Let's step back a moment to the 1970s and the loans the bank made to the developing countries? How did you go about fixing the problem loans? You brought someone in, didn't you, to deal with it?

Clausen: We needed to dig ourselves out of the hole of our bad debts, our third-world debt. We had $9 billion of criticized assets. I suggested that we had to put somebody on it. Lew Coleman would say, "I'll take it." Coleman would always say yes. I said, "You can't get your arms around it. You can't even reach it. You can't keep adding," and Lew finally agreed. We needed to bring in someone because we were not doing a good job in managing that pile of criticized assets.

[Reference: End tape 13, side B. Begin tape 14, side A]

LaBerge: Okay, whom did you interview? And whom did you pick?

Clausen: We picked Peter McPherson, who was then the Deputy Secretary of the Treasury. He was number two under Nick [Nicholas] Brady. For six years, Peter had been the head of USAID [United States Agency for International Development] in the State Department, reporting to George Shultz. I had gotten to know Peter when I came back to Washington as the head of the World Bank.

We first interviewed Ernie Stern, who was really the number two in the World Bank. I was the president, Ernest Stern had all the operations of the World Bank, and Moeen Qureshi was senior vice president on the financial end -- the borrowings and investing of monies. The World Bank always has huge cash liquidity in case the markets go cockeyed. We can run a year or a year and a half without having to borrow money in the marketplace. We just run our cash down.

Ernie Stern is probably one of the smartest people I've ever met -- very knowledgeable on the international side. I want to say he was born in Holland. Maybe he was born in Germany and his family came to Holland. Then his family came to the United States when the Nazis took over in World War II. Ernie and I had a marvelous working relationship when Barber Conable succeeded me as president of the World Bank. I would trust my life with Ernie. I said that publicly when he left the World Bank to become a managing director in J.P. Morgan, one of the top three or four people at Morgan.

Ernie was interested in coming here, but the timing was bad, and I was going to be a short-termer, because I was brought back to fix the bank, to get it back on its keel and solve a good many of the problems (not all are solved yet) and then turn it over to someone to lead. But Barber Conable was new, and he was in the midst of a very important project at the World Bank. Ernie felt duty-bound to the World Bank. He's an economist, Ph.D., a wonderful person and still a very close friend. Peggy and I see Ernie and Zena periodically. They are now in New York. So he was our first choice. Ernie was interviewed on the fortieth floor. Peggy and I took him out to dinner at the end. It would have been a great relationship, because I was and still am very close to Ernie and admire his smarts and his fairness. He was almost always right. He's the one I had in mind. We'd lose a few skirmishes along the way, but we'd win the war.

When Lew Preston, the retired CEO of Morgan Guaranty, left the bank for illness and then subsequently died of cancer, there was some speculation that Ernie Stern should be promoted to become the head of the World Bank, because Ernie was number two under me and he was the strong

right arm of Lew Preston, who had also headed the World Bank. That lineage was McNamara, Clausen, Conable, Preston, and now it's Jim Wolfensohn. Ernie Stern could have been a chief financial officer or the head of our World Banking Group and operations here in Bank of America -- he's terrific.

Then we went to Richard Erb, the number-two guy at the International Monetary Fund under Jacques de larosière. But Jacques had gone, leaving a little after I did, and it was now Michel Camdessus who was the managing director of the International Monetary Fund. Dick was interested and thought about it, but said he couldn't. Again it was a timing issue with Michel new on the job, and he felt duty-bound. There's great loyalty. Writers and critics of the business community kind of gloss over some of the important aspects of managing big business, and the World Bank is big business, and so is the International Monetary Fund. They're both global institutions.

So we had three strong candidates. I approached it collegially with the key members of the Managing Committee. We all liked Ernie, because intellectually Ernie could overpower anybody. I'm not an intellectual, but I've got good strong instincts and seat-of-the-pants experience.

Then we went to Peter McPherson, whom we brought in. Peter was interviewed and everybody liked him and thought he was very good. In a different way, Peter had some of the same attributes as Ernie Stern. I felt that Peter would get along better in the organization than Ernie, because Ernie was so smart that, at times, he could be intimidating. He didn't mean it, but you were very careful about what you said to Ernie, because he was so bright, he'd pick out the flaws in it if he was so moved. Ernie was famous for his red pencil. I loved working with Ernie. It was very stimulating, but I would not want to work for Ernie Stern.

Peter did a first-rate job. His job was to sort out and deal with third-world debt and to minimize our exposure, to make sure that we carried proper reserves, and to ensure that we treated our communities fairly. Peter had the advantage of being a lawyer and having worked in the USAID. He was savvy about carrying reserves and tax deductions. You cannot get a tax deduction just by carrying reserves; you have to experience the loss. And there are ways to experience loss to get greater assistance from the tax benefits. So Peter was ideal for that area. But I also felt it was hopefully only a start, the nose of the camel under the tent, that we could give him increasing levels of responsibility. So after Peter helped us work through our third-world debt problems and take the benefit from taxes, we gave

him a different job with broader responsibilities. We put him in charge of all our wholesale activities in Latin America and Canada in what's called the World Banking unit. Peter had that responsibility at the time he was called to become the president of Michigan State University.

LaBerge: Oh, I knew that name was familiar for another reason, too. So that's where he is right now.

Clausen: That's where he is right now. Peter is a quality person – a lawyer, smart, honest, trustworthy, a lot of fun to be with, has round corners but he's not stiff. He's very personable. He served Bank of America well. You don't make much money working in Washington or for the government. Salaries are low. The president makes $200,000, and so that caps a lot. I must say that Peter never did make a lot of money. The years he was here with Bank of America, he did very well. Peter was not on the Managing Committee. He was on the next tier down, but his counsel was sought after and it was almost always sound.

LaBerge: Let's talk more about the portfolio of international loans the bank had made in the 1970s. Did you get pressure to do that through politics? Or was that just part of your business strategy?

Clausen: There's lots of different kinds of pressure. There's the pressure of having a lot of surplus deposits and having to figure where you put them. There's pressure from your bank's country managers who are spread around the world and who want to do things. There are pressures from regulatory authorities. I remember in 1963 when Bank of America had just extended a $100 million line of credit to Japan. At the time, Japan had a balance of payments problem. Did I tell you this story?

LaBerge: No.

Clausen: Japan went to Citibank, they went to Chase, they went to Bank of America. Bank of America had been in Japan since 1947. I think Citibank had even been there a bit before that, and Chase came after. They asked for a $100 million short-term loan or a line of credit. All three banks said yes.

In 1987, after I got called back after my years at the World Bank, I found that Bank of America's management had been criticized severely by the Federal Reserve. Talk about pressure; you don't understand the word until you've lived through criticism of your management by the Federal Reserve Bank. I could say that in essence the board was forced to make a

change in management because of the pressure from the Federal Reserve and the bank's other regulators. I'm not really sure that the Fed was exactly happy when the Bank of America board called me back. There were some little intangible nuances and comments here and there that gave the indication they were not exactly happy. But neither could they or did they object or resist.

The publicity was so bad. All the signals were that Tom Clausen had caused all the problems in Bank of America by profligate lending to developing countries that turned out not to be creditworthy and who could not pay off their loans. There's no denying that Bank of America had made its share of loans to developing countries that had gotten into trouble: Brazil, Mexico, Costa Rica. Almost all the Latin American countries had difficulty in repaying their loans -- Argentina, Chile, you name it, as well as other countries in other parts of the world. The Philippines comes to mind. It was enormous. When I came back in October 1986, at the end of that year, Bank of America had about $9 billion of its loans outstanding to developing countries.

Seeking Capital for Bank of America

LaBerge: So you went to Japan for more capital?

Clausen: We first tried to get money in the United States. I went to J.P. Morgan and Company and asked to get a bunch of banks together to come up with some money. Frank Newman and I went to talk to Lew Preston, the chairman and CEO, Dennis Weatherstone, the president, and a third bank executive. I explained our situation. This was in the spring of 1987. Paul Volcker, who then was the chairman of the Federal Reserve, had salted the idea in my mind to use that approach. Volcker asked whether we had tried to get a group of banks together to give BankAmerica and Bank of America NT&SA a long-term loan and then we could advance it down. Seafirst had a lot of problems and was still losing money then but was not undercapitalized, partly because it had gotten moneys from BankAmerica Corporation and downstreamed it.

The people at Morgan I mentioned are friends and we got a good, friendly, honest hearing. The suggestion was made that if they could put together a package of a couple hundred million dollars of subordinated debt securities that they would buy from BankAmerica Corporation and then in turn Bank of America would use it in a system to downstream in the form of capital at market rates. Lew Preston said, "It *is* unusual. Let us talk about it. We want to be helpful; I'm not sure this is the way we can *be*

helpful or *should* be helpful." To make a long story short, he called me several weeks after that and said, "Tom, after thinking about it, it's just not our cup of tea. It's awkward, and it's wrong, and we shouldn't. I'm sorry we have to tell you that we just can't do it." I thanked him for that.

Then I went to insurance companies. This *is* in their bailiwick; this *is* in a mode in which insurance companies operate. So we went to John Burns, who then had control of Fireman's Fund. It's a local bank. Fireman's Fund, Bank of America, A.P. Giannini, Fred Murrrow, ham and eggs. Giannini used to be on their board. I think at one time one of the top officers was Fred Murrow. Now it was John Burns.

LaBerge: Okay.

Clausen: They thought about it three or four days and then they said no. Frank Newman and I said "to give the appearance that they're really looking at it hard. Why didn't they tell us when we were sitting there? 'Thank you, but no thanks.'"

I went to Schwartz at Metropolitan Life Insurance Company. Schwartz was an officer on the Georgia Pacific account when I first came up to become the head of Corporate Finance in the fall of 1963. In the spring of 1964 Georgia Pacific took its most senior bankers from its commercial banks like Citi and Chase and five or six other top banks -- Bank of America was the agent -- and two insurance companies, Prudential and Metropolitan, and toured their locations. We had dinner in New York, then went to Maine, then to Pennsylvania, then to Arkansas. I remember Senator Fulbright addressing us, and I thought that was pretty good for a company like Georgia Pacific.

[Reference: End of Tape 33, Side B. Begin Tape 34, Side A]

Negotiations with Japan, 1987

LaBerge: So you went to different locations.

Clausen: California, Oregon, Washington, Alaska. It was in Alaska, near Douglas, that we were going to go to a place, and we couldn't find a car big enough. Schwartz and I got in the trunk with the trunk lid up and our feet hanging over the edge. We were perched back there. So I knew him rather well in the course of the years. But Metropolitan turned us down too.

Then, as a result of striking out with all these companies, we had the idea -- why don't we go to Japan? Bank of America was held in high regard in Japan. Bank of America had a branch there very early – I think it was our third overseas branch, and it had been helpful to Japan, especially right after World War II. So I geared up to go to Japan. We first talked to George Ishiyama. George was born in Japan and has his Japanese passport. But he has big interests all over, and he's very wealthy. He had some of his relationships at Wells and later added Bank of America. He used to be on an advisory board of Wells Fargo. Frank Newman used to be at Wells and he knew George. George in turn had great admiration for Frank. So Frank asked him about the idea of our approaching Japan for help. Frank pointed out that Bank of America has long been a friend of Japan, and maybe now we could capitalize on some of that.

George was very flattered that we would ask his counsel about how to approach Japan. He encouraged our doing that and said his close friend was the top banker in all of Japan. He is the father banker, the one that all other commercial banks look up to. His name is Sohei Nakayama, the retired chairman and CEO of the Industrial Bank of Japan. In all the years that I had been traveling to Japan with Bank of America and then the World Bank, I had never met him because he had retired -- he's now in the nineties.

The result of that contact is that Sohei Nakayama was convinced that Japan should help Bank of America and he said he would help to make some arrangements. But he also said that I should get out to Japan and talk to some of the senior banks. So I talked to the CEOs of many Japanese banks – I talked to Bank of Tokyo, I talked to Sumitomo Bank, talked to Fuji Bank, talked to Sanwa, Mitsubishi, and maybe three or four others. I knew a good many of the CEOs personally. I made the pitch then left the details to Frank Newman and Kevin Farrow, who was in Frank Newman's department. Kevin stayed through the summer to work with some of the individual banks.

Back in 1966 when I was at Harvard at the Advanced Management Program, one of my classmates was Kaneo Nakamura, who was a senior officer of Industrial Bank of Japan. Now in 1987, at the time we needed money, Kaneo was the chairman and CEO of Industrial Bank of Japan. Kaneo is very cautious and I thought that Kaneo was not going to like this. We talked to Kaneo and to the retired head of Industrial Bank whom I mentioned, Sohei Nakayama, but always separately. I talked to Kaneo again at the annual meetings of the World Bank and the IMF in Washington, D.C. that September or October. By now our underlying

operating losses had been reducing each quarter. We did not have the third quarter underlying operating profits until about October 20th. But both Frank and I felt that the losses at worst would be less than they were in the second quarter, and with a little bit of luck, we would turn an operating profit in our third quarter, which would be the first quarter that we had had an underlying operating profit in a couple of years, which was a very long time.

And finally we did the deal. We closed the books and agreed on Friday October 16, 1987, just before October 19 -- Black Monday. Money passed on the Wednesday two days later, October 21. Some people might speculate that had we not had a handshake on the Friday before Black Monday that the Japanese would have backed away from the agreement. But I know the Japanese are honorable people, and the handshake means something to the Japanese just as much as it means something to the U.S. But we commented, “Boy, how close can we get?” We got $250 million in twelve-year notes in the holding company at perhaps two percentage points over LIBOR. (London Interbank Offered Rate.] Warrants were attached allowing the holders to purchase Bank of America shares at $17.50. Our market price at the time, I want to say, was something like $13.50. Our book value was fifteen dollars, so we gave these warrants as sweeteners.

Along with that, we negotiated another package with Nomura Securities. This one was $100 million of subordinated notes with twelve-year maturities, convertible into common stock at $17.50. It was pretty expensive, but it was the best we could do. At least we put the shares out at four or five dollars more than what the market price was at the time of closing, and more than book value. We were reporting profits, but it was from gains of assets that we owned whose value had appreciated. We had not yet reported an underlying operating profit.

I felt then, and I still do, that the support of these Japanese banks and bankers showed a great vote of confidence and faith that Bank of America would turn it around. I would say we got it because I am known in Japan, and the Japanese respect me. I told you how when I was at the World Bank I negotiated with Nobura Takeshita, then the minister of finance, about increasing Japan’s role in funding IDA 7 in exchange for jumping over Great Britain’s number two position.

LaBerge: Yes.

Clausen: They felt very good about that and very appreciative of my own involvement and help and support for that effort. Before that, I had received the highest award that the Japanese government can give to a non-Japanese for my involvement with Japan through the years. Part of that involvement was being the chair or co-chair of the old Japan-California Association, the JCA, with Owasa-san, the former chairman of Fuji Bank. Rudy Peterson and Owasa had started the JCA in about 1964. When Rudy retired as a CEO, Roy Ash took it for a year and a half as the co-chair with Owasa. Then Roy got called by the Nixon administration in 1970 to become the head of OMB, the Office of Management and Budget. After Roy left, I became the co-chair with Owasa-san. That's about all that needs to be said about that. I may want to touch on that again, because that's a very important part of the history.

One banker said they had had discussions with the management of Bank of America before because they had noticed that the profitability had declined. I was asked, "So what makes you think, Mr. Clausen, that we ought to believe you?" It was a legitimate question, but he was tweaking my nose a little bit. I remember my remark. I said, "You might have heard it elsewhere, Mr. So-and-So, but you haven't heard it from Tom Clausen. And we *are* reducing our losses." I had seen the fourth quarter operating losses, which were less than the third quarter, and I had seen the first quarter of the next year's operating profit and losses. The losses had reduced dramatically. We were terribly overstaffed and we really were moving to reduce it. I felt reasonably good that we were going in the right direction. It took me two quarters, a quarter and a half longer than I figured. It wasn't until the third quarter of 1987 that we broke out with an underlying operating profit of a few million dollars.

Bailing Out Mexico

When I came back we were up to our eyebrows in Third World debt. We were the largest non-government creditor to Mexico, our next-door neighbor, by some $50 million more than Citibank. I think we had $2 billion, $600 million -- that's within a few hundred million dollars one way or the other.

I knew Mexico very well when I came back to Bank of America by virtue of the World Bank, and made a sectoral adjustment loan -- that's World Bank parlance. It's unlike a loan to an irrigation project where you can see the actual project. I would argue that making a good sectoral adjustment loan is even more difficult than making a structural adjustment, because you can't see it. To do it, you tinker around with tax policy and

government efficiencies and all sorts of things you can't see. You can feel it, you can see the results of it, but you don't see the thing itself. So I knew a lot about Mexico. Mexico was really trying. This was in the days when Miguel de la Madrid was president of Mexico and Jesús Silva-Herzog was finance minister, and Miguel Mancera Aguayo was president of Banco de Mexico, the central bank. In those days they had the best economic team that I had ever seen! I had been a follower of Mexico by reason of being the top loan guy in Bank of America and chairman of the General Finance Committee. When I was with the World Bank, I was perceived to really be on Mexico's side. I talked them into joining GATT -- I still remember that dinner when Arthur Dunkel, head of GATT, was on one side, Silva-Herzog sat in between us, and I was on the other side, and Arthur and I really squeezed Silva-Herzog to go back and convince President de la Madrid that Mexico should join GATT, not for the sake of joining but for the people of Mexico. And he convinced President de la Madrid to join GATT.

Silva-Herzog is now Mexican ambassador to the United States. I talk to him once in a while. I talked to him four or five weeks ago, and I will see him on one of my trips to Washington. I should, I must. There are so many things to do.

And now it comes to restructuring about $49 billion of bank debt that Mexico owed. New York is more of a central place to hold meetings for European banks and for Japanese banks than San Francisco. So we met at Citibank's offices. I made eight trips to New York and Washington during three or four months to renegotiate that debt. The banking term for that is "reschedule." And I helped devise the alternatives each bank could choose -- to lower its rate, forgive part of the debt, stretch out maturities, et cetera.

I felt very strongly that Bank of America, given our history and position with Mexico, ought to have faith that Mexico was going to make it, and we ought to help. I believe in helping our friends. (I've got too many friends running for the president of the United States. This includes Steve Forbes as I knew his father Malcolm very well. Malcolm loved to play bridge and Peggy was a good bridge player, so Peggy always took me when she was invited by Malcolm to play. Lamar Alexander is a good personal friend. Dick Lugar is running too. He's a terrific person. One supports your friends, and this has cost me a little money. But nevertheless, it's for friendship.)

LaBerge: How were you able to orchestrate a vote in favor of Mexico when you came back?

Clausen: I happened to casually mention this in the Audit and Examining Committee of the board one day that we have this huge overhang of debt and I gave a little progress report on Mexico. I was making all these trips back to New York where we were shaping the choices we could give to the commercial banks. These included banks from the U.S., Japan, Switzerland, the U.K., Germany – everyone was lending to Mexico. One of our strong directors in those days said, "Tom, I hope somebody wants to take this down and put it in their minutes: "Over my dead body will we loan another penny to Mexico." So I said, "Well, we're a long way from that, but it has to be rescheduled." He said, "Yes, I agree it ought to be rescheduled, but we've got enough Mexican debt on our books."

I think the Managing Committee felt the same way. But I found a convert on the Managing Committee, which I've always been grateful for.

LaBerge: Who was it?

Clausen: Lew Coleman, who at that time was head of the World Banking Division. Lew happened to mention one day, "I've been thinking about our informal discussion of what the meetings you're participating in. You know, I think maybe I could be convinced." Well, starting with that, the Managing Committee did agree that we should not forgive a penny of debt, but it would probably be in our best to reduce the interest rate and lose a little bit of income. I think we reduced it to about 6 percent, which even today looks like a pretty good interest rate. And that, yes, we could look at increasing our exposure to Mexico. There might have been twelve to fifteen U.S. banks that had some credit extended to Mexico that was part of this $49 billion being renegotiated.

Only two of those U.S. banks came forward with additional monies. One was Citibank, under John Reed. One would expect that of them because they were truly the international bank. They increased their exposure by about $400 million, as I recall. And Bank of America came up with $100 million.

LaBerge: How did you get the rest of them to agree?

Clausen: Just common sense, common sense. I don't try to intimidate. I believe my style is collegial.

[Reference: Tape 34, Side B]

Selling the Bank Headquarters Building and Cutting Expenses

LaBerge: What did you think of the decision to sell the bank building when you weren't here?

Clausen: I was glad we had it to sell [laughter]. I have a macro criticism, one that's probably unfair. But it's me that's talking. It's about the way in which the bank was treating its problems in the eighties. I think I said that I liken it to a ship on the ocean, and we've got some holes in the hull. We're riding lower and lower in the water. That's analogous to the fact that although we're still profitable, our profits are diminishing. So we want to take some of the load off the ship, and it would ride higher in the water and we could progress faster. So we sell this headquarters building. We built it for $96 million and we sold it to Shorenstein for $640 million. That's a nice spread between the two. Not all that money came immediately to our capital because a good chunk of it came in deferred payments, and accounting rules determine how fast you can bring it down to the bottom line. We sold a lot of other things as well. Even though we were lightening the load, we were still taking on all this water. My criticism is that somebody should have gone down to the hull and plugged the holes. Then maybe we wouldn't have had to throw so much furniture off the ship in order to make it lighter and ride higher in the water.

Like I said, it's probably unfair. But that keeps coming back to my mind. I should not have had to be called back. I realize that is terribly damning on the prior management when I say that. All the bank did when I came back was to make the tough decisions where they were needed, shorten the lines of communication, tell our employees what the problems were, and get them on the team. Employees want to do what's right, but they need help in knowing what is right. Trust breeds trust. Trust your employees to work hard and faithfully.

LaBerge: So the building was sold simply to raise money.

Clausen: The building was sold to raise capital when I was in Washington. But the folklore in Norway is that you're not worth a tinker's damn if you're in business and you don't own your own headquarters. So when I came back, I negotiated with Walter for Bank of America to get an option to buy it back, and we did. The option is exercisable over the next few years later. The ownership of the building was split with the Shorensteins -- 50 percent for Bank of America and 50 percent plus a share for the Shorensteins. So when push comes to shove, they could technically

overrule our interests on it. But the Shorensteins are wonderful landlords and owners.

LaBerge: So you planned to exercise the option when the bank was profitable again.

Clausen: When it was profitable, yes. We started making underlying operating money in the third quarter when I came back. I thought I could do it faster. I still think I could do it faster. But it's one thing to clean it up, to downsize and cut costs, but it's another thing to increase the revenue stream simultaneously. Being arrogant and egotistic, I thought I could do it faster than I actually did. Nevertheless, the outside world said, "How did you do it so fast?"

LaBerge: That's right.

Clausen: The folklore says there's never been such a fast turnaround. Some of the people who were not happy to see me come back will say I just reaped a profit that was already there. And who knows? But I wanted it to happen, and it did. And how that happened will be in the management book I'm never going to write.

Focusing on Expenses

Another message I wanted to send was that you *can* control your expenses. When I came back to the bank, management was going to have a big Christmas party. It's traditional, with directors, senior officers, and spouses. I asked, "What's our operating losses this year? What were they last year? What is there to celebrate? This an expense – bringing officers, directors and spouses in from Washington and Chicago and out of state to celebrate. Besides, we just lost our senior management. Boy, are we going to have a lot of fun!" [tongue-in-cheek]

We were commenting on that at our retreat off of Rutherford off the Silverado Trail. It's real neat, with considerable expense, but it's close by and we can drive rather than flying off to some place like we did to Hong Kong. Before I had gone, the retreats were at Silverado and at the Biltmore. Not high on the hog, but very good. When I came back to the bank, we held our retreat in what I call a second-rate hotel down in Sunnyvale [chuckles]. Nothing fancy. What a difference from this last one, which was pretty posh. I'm not complaining about posh, because you have to get the directors away so we can use them 100 percent for three full days --you have to make it nice. And this was particularly nice. Our directors can bring in a lot of business as well. So we had a big reception

and two nice dinners -- one at Beringer and one at Mondavi. One of the old timers remembered the retreat down in Sunnyvale -- oh, what a difference. You feel a lot better working for a company that makes money than for a company that's losing gas and doesn't know what to do.

LaBerge: When you returned in 1986 you had an interesting group of people to work with on your senior team. Can you tell me more about them?

Tom Cooper

Clausen: When I came back as chairman and CEO, Tom Cooper was made the president. I told you that I spent the night before that first board meeting with Cooper. He was a computer systems guy who had been hired into the bank. Cooper had been perhaps the president of Fidelity Bank of Philadelphia, a $3 or $4 billion bank, which subsequently became part of Mellon, which was more of a wholesale bank. Mellon became a $15 billion bank and Cooper was one of several vice chairman. He'd been considered to head Seafirst, but Dick Cooley got that job. Cooper was hired into humongous Bank of America as an executive vice president to head our backroom systems. Cooper was a guy who could make a decision. And because Sam wasn't making the big decisions, and was wrapped up in so many problems, Cooper became the acting head. He was now running the whole schmear. But in my view, he didn't have the personality or the experience to really know how to fix it. The little Fidelity Bank had less deposits that our single Los Angeles main office which was much bigger. But my impression in talking to some of the board members is that they were getting frustrated with Sam and they liked the way Cooper stepped in. I told you Sam was great for 98 percent of the decisions, but he couldn't make the toughest last two percent. Cooper could make a decision and the board liked his style. At the time he was made the president of Bank of America, but not of the corporation.

In my experience I've known a lot people who have lost their nerve and they can't make the decision. Some managers are great up to a point, but can't handle the last and toughest part of the job. I've had to get rid of a couple of them, which I tried to do politely and effectively. Winston Churchill said, "It is no use saying, 'We are doing our best.' You have got to succeed in doing what is necessary." He told that to the British people when the Nazis were bombing the hell out of London. It's one of my favorite expressions. It's a very humbling thing to me to think that I may be the best person we have to do this job, but what I can offer is not enough. You need somebody stronger than I am. And Bank of America faced that challenge with several of its senior officers.

More on the Management Team

LaBerge: Tell me more about Tom Cooper as the bank's president.

Clausen: Tom Cooper had reported to Sam, so when I came back he was reporting to me. But the real operations were mostly under Cooper. I had the Legal Department, Human Resources, and World Banking. And Cooper had most of the rest. But the problems were *with* most of the rest. That's where the big decisions needed to be made.

Tom Cooper was a very bright person and a very strong person with strong views. But I would say Tom Cooper was not a team player. He could execute well, but he was not great on communications nor did he want to share what he was thinking about. Even after he did something he didn't want to share what he had done. He was not inclusive. But Clausen and Cooper were not adversaries. Cooper was supportive in a managerial sense. He participated in the Managing Committee, and he contributed strongly. He became an expert on MasterNet. MasterNet was a computer system that had been designed to handle our trust accounts in our trust department. It was intended to computerize the administration, control, and oversight of all of our hundreds of thousands of trust accounts. It was underway when I came back, but it was having a lot of problems and receiving a lot of criticism. And it was costing a great deal of money.

Cooper was very incisive. I never thought of this idea before: Cooper was an example. I think I've said that I believe it's far better and more constructive to have a well-articulated *wrong* decision than no decision. Sam was no decision. I've never thought of this before, but Cooper's well-articulated wrong decision was Masternet. I can honestly say that later Cooper left voluntarily because we were bringing someone on to fix the retail bank. But had he stayed, I would have had to fire him over Masternet.

Need to Fix Retail

LaBerge: You've said several times how critical it was to get the domestic retail business back on its feet. Will you tell me about things you did to achieve that?

Clausen: I had figured out fairly early that unless we can get the retail side of our bank back to its strength and regain its reputation, we're not going to have much of a chance to turn the bank around. Retail was our strength, our core, the marrow in our bones. So Cooper and I had a lot of conversation

about that. I said, “Tom, we’ve got to fix the retail side of this thing, and even you’ll agree that it needs a lot of fixing.” But I felt that Cooper wasn’t the guy to do it. He had no experience in retail. I had an inner circle -- the snake within the tunnel (that’s monetary terms for the Eurodollar) – a small group in a larger group. There was a small group in the Managing Committee whom I came to depend on for advice and counsel, and they formed a sort of cabinet for me. The full Managing Committee was not the most intimate and confidential group. Two of those guys talked too much. Taylor, Cooper, Newman, Frick, myself -- we were the snake. We talked about how to fix retail and I reached a judgment about what I was going to do. I didn’t make that decision collegially. I decided to hire the best person I could find to take on the challenge.

In all sincerity I could not have done as well as I did without Barbara Desoer and her objectivity and knowledge of how the retail bank operates. She grew up in the commercial side of the retail bank. She had an MBA. Even though she was an MBA from Cal Berkeley, she was okay [chuckles].

So we got a search firm and I guess everyone went along. We got some names. I felt we were terribly short of senior talent in the system, and now here was an opportunity to get somebody of power. I had my eye on Dick Rosenberg, who had been promised to succeed Dick Cooley as the head of Seafirst. Seafirst was not too good in those days, but it was bumping along and recovering. And every year it was doing a little bit better than the previous year. But I knew that if we filled this spot with Rosenberg, who was already a member of our corporate senior team, we wouldn’t be adding another really powerful person from outside. So before settling on Dick, we looked at other possibilities as well.

LaBerge: Can you name some of the people you considered?

Clausen: I remember several names. One was Dick Kovacevich, who is now the CEO of Northwest [later of Wells Fargo]. Another was a guy by the name of Hoffman. We invited him out and interviewed him. I liked him very much and he was interested. Hoffman had a Citibank background, but he didn’t have the Citibank personality. Not overly aggressive or too confident. I’m showing my Bank of America upbringing now. Most Citibank persons were viewed by BankAmericans as arrogant. Hoffman was interviewed by some of our senior team and we all agreed that he would fit, but we had one little reservation. We didn’t want the Citibank retail style in Bank of America. Our style is different. Bank of America’s style is subdued elegance. Citibank’s style is city slickers. It’s not really as

wide as that. Citibank is a very good competitor and Citibank is doing very well once again. There's been a long-time historical competition between the two organizations. But the downside of hiring a Citibank banker was that it would take time for him to learn our markets and the way we operated. We kept telling ourselves that time was not on our side.

We were still losing money operationally, though less month by month, if Frank Newman knew his stuff. Regarding Newman, I might have had concerns at the start -- after all, he came from Wells Fargo. A little bitty bank. What does he know? This is a big bank. He's up with the big boys now, in the big leagues. I hope he knows what he's telling us. There's my arrogance. I say this partly in jest, because Newman was a good guy and I quickly had a lot of confidence in him. Newman was probably the best chief financial guy around. He's now CEO of Banker's Trust, as you know. Sam Armacost was a good picker of horseflesh in that sense. Sam supported Dick Cooley and listened to him when Seafirst was in trouble. Armacost had the ability to listen and negotiate and do a deal with Chuck Schwab. So Sam was a good person then, he's a good man now. The problem was just that 1 percent. Sam's more mature now. And I would do the same thing over again in picking Sam, but I hopefully would have had the courage to say no to Prussia. But back to Cooper.

LaBerge: And Hoffman. So Hoffman did not come?

Clausen: I didn't extend the invitation. Hoffman was the best external candidate, but I felt we didn't have the luxury of time to get him up to speed.

Then I talked to Cooley. He and I kind of grew up together. He became the CEO of Wells Fargo before I did in Bank of America, maybe by two or three years. He was really young. I was forty-six when I became CEO here. Dick was maybe a bit younger when he became CEO of Wells Fargo. I'm seven months older than Dick Cooley.

Wooing Dick Rosenberg from Seafirst

Clausen: Dick was down from Seattle and he stopped in for a couple of hours. I raised the question, "Could we talk Dick Rosenberg into coming down to San Francisco and taking over the retail bank?" Cooley said, "You can't, because he's moved so many times in a short period, and he and Barbara are wedded to Seattle and Seafirst, and he's going to succeed me." But I'd come to the conclusion that Dick was the one to do the job for us. He did it for Wells Fargo, he did it for Crocker after Wells, and he was doing it for Seafirst. He grew up with California retail, and he would be coming back

to California, which he knows like the back of his hand. Cooley was truly very generous with his people and at that meeting he told me, “I’ll support you.”

Cooley had a lot of experience. When the opportunity to lead Seafirst came, he took it. He discovered that Seafirst was in worse condition than he could have imagined and he wasn’t able to fix it. Seafirst was distressed and was on everybody’s list and had big problems due to oil loans made in Oklahoma. Ironically, Continental got into big trouble with oil loans in Oklahoma with the same promoter. Bank of America subsequently bought Continental, just as it did Seafirst, which is a bit ironic. When Seafirst was in deep trouble, we were allowed to jump over state boundaries and buy the bank, and Cooley became a member of the BankAmerica management team.

So I went after Dick Rosenberg. I remember I had dinner with him at the hotel here in the city.

LaBerge: The Clift?

Clausen: The Clift, yes, in the Renaissance Room at a quiet table off in a corner. We had a long dinner and talked about the job, about the opportunity. He was not terribly enthused about it. He had moved too much – four times in five years. Barbara would be upset. And they were committed to Cooley. Cooley had been the CEO of Wells Fargo and Rosenberg had been maybe number two or three at Wells and on the board. Then Frank Cahouet from Security Pacific took over Crocker. Crocker was in trouble and he brought Rosenberg in as the president of Crocker and on the board of directors. Rosenberg cleaned up Crocker and that's what attracted Wells Fargo to buy it. Then Rosenberg went to Seafirst as the president of Seafirst Corporation and Seattle First National Bank and on the board of directors. The board and Cooley had promised Dick that he would succeed Cooley; it was in his contract. Bonuses and salary and stuff, Dick carried all that through. What he had before was covered in every move. You can’t do that with the World Bank. I’m not complaining at all because I think I’ve been luckier than what I deserve to be.

Dick kind of said “no.” I’m very open and candid, and I said, “I’ve been talking to Dick Cooley, and Dick would hate to lose you at Seafirst, but he’s willing to do it for the good of the overall entity of the BankAmerica Corporation.” I said, “I promise you’ll become a board member.” Here’s my confidence speaking. I don’t have the right to promise anybody to come on the board of directors; that’s the directors’ responsibility. But I

know the board; the board would say yes. The board has never said no to me. I suppose that says two things. Hopefully I've never asked for anything that they *would* say no to, because I've kept the ball on the fairway and always try to. And I wanted Dick to run the retail bank, which was maybe five times bigger than all of Seafirst Corporation. I think Seafirst was $9 billion in assets whereas our retail operation was about $45 billion in assets. And Dick would be a member of the Managing Committee. Rosenberg would not come down and work for Cooper, so I said that he would report directly to me. He had to be vice chairman of the board and a director of the board, which meant I would then have to match retail and wholesale, which bothered Dick a little bit. (Wholesale was headed by Bob Frick, but when the time came and I recommended them to the board, I separated the appointments: first Dick Rosenberg and then Frick perhaps a month later.)

Rosenberg went back to Seattle and then Cooley suggested, "Why don't you call Dick and tell him you want to come up and talk to him and Barbara?" So I did. I had met Barbara once, some years earlier, when the Reserve City Bankers had one of its meetings in Seattle, and I was then at the World Bank. I think I was asked to give a speech. It just so happened that Peggy and I were at the same table as the Rosenbergs, a table of eight, maybe ten, and we talked to each other for the first time. Barbara is vivacious and forthcoming, very attractive. Peggy is more quiet, but very attractive and she was sharp, may I say, in those days, but she's suffering now with some memory problems. We got along fine with the Rosenbergs. So at Cooley's suggestion I called Dick and said, "Can I come up and have dinner with you?" That dinner was on a Sunday night.

Cooley set me up with a club and I flew from Los Angeles to Seattle and had a long dinner with Dick and Barbara. They both said that they would like to think about it. Then I climbed on the plane at, say, ten-thirty or eleven and flew back to San Francisco that same night. The next morning I told Frank Newman and Glenhall Taylor of my evening. Both of them had worked with Rosenberg at Wells Fargo. I said that I was very unsure, that I didn't know which way it was going to go. "My instincts tell me that he's going to say no." That was on Monday.

On Tuesday afternoon Dick called and said, "Is the offer still open?" [laughter] I wanted to crawl through the telephone wire to go up to Washington and thank him. I said, "You bet it is. When can it happen?" So that was a good move. It was the right move because time was not on our side, Dick knew the market, and he knew the industry. Yes, we gave up the opportunity to use the post to get another person of talent in, and we

were still thin on talent at the top before the Continental Illinois acquisition because of two guys we kept. But we got Dick Rosenberg and that counted for a lot. Getting Dick on board gave us the opportunity to fix things in a hurry.

LaBerge: How did Tom Cooper react to this? Didn't he leave the bank about this time?

Clausen: Cooper decided his job was redundant, which it was, and he resigned from the bank.

Hiring From Wells Fargo; Employee Development

LaBerge: I understand that when Dick Rosenberg came in, he hired a number of people from outside, particularly from Wells Fargo.

Clausen: Dick will tell you when you talk with him down the line that he brought in some of the people he knew were strong players. We were weak on retail. Don Mullane was kind of the top retail guy here and Dick didn't know Mullane. Dick, to his credit, said, "You know, if time was on our side, I think I could work with Mullane. But it's not, so I want to bring in Tom Peterson."

So we hired Tom Peterson from Wells Fargo. We got a lot of people from Wells Fargo, mostly through Dick, to the point where old-time Bank of Americans would say, "Gee, in order to get promoted in Bank of America, I think I'll go over and get a job with Wells Fargo and then come back. Because unless you're from Wells Fargo, you're not going to be promoted." That was the perception of the troops, and it was not a good thing. We had a culture in Bank of America, and Bank of America's pride was being hurt. We talked about this with the Managing Committee and I said, "No one gets hired as a senior officer from Wells Fargo without my personally approving it." I'm not sure that everyone followed that, because Dick is headstrong and an independent operator. But very importantly, he is a team player. There were times later when we wanted to send one of his stars, his outstanding employees, to special programs at the University of Washington, Harvard, or Northwestern for a period of six, ten, twelve, or fifteen weeks, and Rosenberg was always willing to give up his best people for the cause of the total organization.

Some senior officers were not willing to do that because if their high-producing person goes away, there goes my bonus! Cooper had a good idea -- there ought to be "corporate property." The Managing Committee

ought to identify those outstanding young people (let's say forty and under) who have extreme potential. Then their professional career path would be managed by the company and not be only at the discretion of the person's manager. Their current manager couldn't block their progress because the person would be "corporate property." And they would be off-limits for other managers to poach. The Managing Committee would track and operate the program for the person's own development and the long-range benefit of the total corporation. We didn't do a very good job on that score, and I'm still critical of Bank of America's development efforts to this very day. We're not doing what we ought to be doing for the development of our people.

However, we do a great job on training. There's a difference between training and development. Training is how to do the job, how to execute well, how to do it efficiently. Development is a broader and slower process. I told you about the "couth school" in Pomona under Rudy Peterson. And the Advanced Management Program at Harvard. Those are development programs.

LaBerge: And you found Dick Rosenberg to be very supportive of developing his people for the good of the corporation.

Clausen: Dick understands that and he was very generous, particularly in the area of promoting women. Just recently in the *Examiner* there was a picture on the front page of three women: "Women are doing better in business," or whatever the lead article was. One of the women was Shelly Porges, a senior marketing person from Bank of America. Shelly was hired from American Express, where she had something to do with their credit card, to run a portion of Bank of America's credit card business. Shelly was extolling the virtues of Rosenberg and his support of her. Dick has the ability to motivate people in very good ways. One of his strong attributes is as a motivator. He can get them to understand what the goal is and the course of action necessary to follow and then get them to really commit themselves and to work hard to reach the goal. Dick Rosenberg also knows a lot about credit cards. He was one of the early leaders of MasterCharge, started by Wells Fargo and the competition after Bank of America had started BankAmericard, which became VISA. Then we syndicated VISA and we no longer control it.

LaBerge: Dick Rosenberg put a lot of responsibility on Tom Peterson, didn't he?

Clausen: Mutt and Jeff. Tom Peterson and Dick Rosenberg. They were close cronies. Dick was talking to Tom Peterson, Tom Peterson was listening to

Dick Rosenberg. Now Tom is Mr. Retail. (If you read the press these days, Dave Coulter can't even spell retail. It's not true. If Rosenberg can learn it, Coulter can learn it -- they're both very bright.) Tom Peterson was going to leave when Dick retired, but now Tom is going to stay for two years to help the transition. That's the kind of a guy that Rosenberg is. Rosenberg's integrity motivates others. I know a lot about these things because Rosenberg reported to me. On that score, I know that Rosenberg does not like close supervision. He likes to be given his own head. He can work very quickly but he's not the best communicator. I think it would be better to be less quick and listen a little bit more, and then he would get fewer things screwed up or miscast in his head. Not that he screws up, because one of the best things that I've ever done was to hire Dick Rosenberg, to convince him and Barbara to come down.

LaBerge: Did you promise Dick that he would become the next CEO?

Clausen: This is a fact: I didn't promise Rosenberg anything other than the Managing Committee, the board appointment to get us up and going to fix our retail side, and then working together to restore the corporation.

We had to make Bob Frick a vice chairman of the board as well. Frick was a vice chairman, but not on the board. And Newman was a vice chairman of the board, and Glenhall Taylor was a vice chairman of the board. We had one or two other vice chairmen, but not of the board. Jim Miscoll, for example, was a vice chairman but not of the board. It was a challenge to me to balance the representation of the different areas of the bank. You also have to balance domestic retail and commercial with international. Our international side is commercial. We got rid of almost all of the international retail overseas in order to improve our capital structure and enhance our focus.

CRA Challenge in 1986

LaBerge: When you came back, you had more than profit problems to deal with, didn't you? You had to deal with your poor Community Reinvestment Act rating.

Clausen: I believe we were rated "unsatisfactory" on CRA in the early eighties. And when I came back in 1986, the regulators, who always stick together, were holding the bank hostage. Just before I came back, management wanted to sell the trust department because we were losing money on it, so the board had agreed to sell it and negotiated a sale price with Wells Fargo. But the actual sale occurred after I came back. If I had it to do all over again, I

would not have sold the trust department. I think I should say that not to purge my own soul. I've said that before. But the regulators did have a say in it.

LaBerge: The regulators are who? The Comptroller of the Currency?

Clausen: The Federal Reserve, the Comptroller, and the Federal Deposit Insurance Corporation. Then there's the SEC. The Comptroller of the Currency was not going to give us permission to sell it, and I can remember that the regulators came to visit the board. This was like February or March of 1987. We had been hard at work for four good months, and we felt we had made a lot of progress. But a spokesman -- I think it was the top Fed guy -- was just reading the riot act to us. During the discussion, the regulators talked about the CRA, and they said, "We're not going to permit you to sell your trust business to Wells Fargo until you clean up your CRA." Frank Newman, who a few months earlier was the treasurer of Wells Fargo, said, "But I understand Wells Fargo has a satisfactory rating under CRA. So is that fair to Wells Fargo?" The guy stopped in his tracks.

Don Mullane and CRA

Then I put first Ray Silvestri in to clean up CRA, and then I put Don Mullane in charge. Don is a marvelous man. I should tell you something about him. Don Mullane is the only senior officer I am aware of, at least in my years with the bank, who took a pay cut and a different role and did a first class job. He was making $200,000 salary while heading the California Division, which was our retail bank, and I had to cut him back to $150,000 when Dick Rosenberg gave that role to Tom Peterson. As I mentioned, Dick felt that time was not on our side. If we could have afforded to be patiently impatient, we could have worked with people in their present jobs and brought them on stream under new leadership. But in our case, we had to do what was necessary in a very short time, so Mullane was taken out of that spot. Mullane's a good guy. He was a terrific performer and he still is.

LaBerge: Is he still with the bank?

Clausen: Oh, yes. He was going to see me this morning. I'm not with the bank, but he's a friend. He's still a member of the Senior Management Council, which is the top, say, twenty-five officers in the bank. He's not on the Managing Committee, but neither is the current head of our California retail operation today -- a lady who was formerly my administrative assistant.

LaBerge: Is that Barbara Desoer?

Clausen: Yes. She's not on the Managing Committee, but the person she reports to *is* on the Managing Committee. We took Mullane out of that important job and gave him something else to do. I had to cut back his salary. I would be willing to guess, well, that's a blow. It's disappointing. What do you tell your wife when you go home? "My salary has just been cut 25 percent." She's got the kids in school, all of that. It's not a very proud moment to talk to your mother, your family, your friends. A good many people would quit and leave and get another job. But Mullane stuck it out. And the interesting thing about it in my mind is that his respect for me grew. My reading of it is that he thought better of me than before. Talk about being lucky. And today, I would say he is a confidant of mine, and I am for him.

CRA and Bank of America Philanthropy

LaBerge: What responsibilities did you then give Don Mullane?

Clausen: We gave Don the assignment to clean up CRA. And we also gave him charge of our philanthropic effort. When I had gone to the World Bank in 1981, the philanthropy of Bank of America was, in order of magnitude -- let's say $12 million or $13 million each and every year. True philanthropy.

LaBerge: Is that the foundation?

Clausen: Well, Bank of America including the foundation. And the foundation had a corpus of $39 million, in and of itself. The Bank of America would make a tax-deductible gift to a 501(c)(3) called the Bank of America Foundation. The Bank of America Foundation, when it has a corpus, can do whatever it wants to do. Peggy and I have a foundation; we have to pay out at least 5 percent of the corpus in the foundation each and every year. We give a lot more than that, and so does the Bank of America. But you've got $39 million of assets, and the bulk of that $12 million or $13 million of philanthropy coming partly from Bank of America, partly from BankAmerica Corporation, and partly from Bank of America Foundation. The bulk of it comes from the foundation. But when I came back after being gone almost six years, the corpus had gone to zero. And it was questionable as to whether the Bank of America NTSA could continue to make contributions because it had suffered such losses. Sometimes I get asked, was Bank of America in jeopardy of going broke? When I get a question like that it makes me furious. We were not in that danger. But clearly we were bleeding because in 1985 and 1986 underlying operating

losses totaled $1.9 billion in those two years. The reported losses were less than that because we sold things for gains, like this building and the headquarters building in Los Angeles. We sold the card operations, we sold Banca d'America d'Italia, we sold Schwab, sold a lot of things for gain which offset the underlying losses. So we reported less losses, but we reported losses in both of those years nevertheless.

So when I came back, I reduced the philanthropy of the bank down to slightly less than $3 million a year, the overwhelming majority of which was to United Way campaigns. And we cut back on our annual corporate contribution, not the contribution of our employees. We don't know what employees give -- we simply actively encourage our employees to become involved, to work for the campaign, but also to give. And so we gave Don Mullane responsibility for the United Way campaigns and for our philanthropic giving, even though it's reduced way down. Earlier, we had lost the head of our Bank of America Foundation, and we hired a guy by the name of Ed Truschke from Xerox. Ed Truschke I remember because he is a graduate of Carthage College, and he and I and a lady down in Bakersfield were the only three graduates of Carthage College in the whole Bank of America system, as far as I knew -- not that I was looking for them, but I just stumbled on them. When I hired Ed Truschke out of Xerox to manage this before I went to the World Bank, I told Ed that this is a temporary thing, we'll be back in the giving mode soon. Just hang around; there'll be opportunity. Now he's at the Alzheimer's Foundation in Chicago. And Chicago is right near Carthage. I see him now and then when I'm involved with Carthage.

So that's the story of DonMullane. Mullane swallowed hard and didn't leave. And as I said, for some strange reason, we not only remained good friends but we've become close confidants. It would not be abnormal for Don Mullane to have had a lot of resentment. But he didn't. So all the credit for that goes on his side. He's a splendid man. Rosenberg would say he's a splendid man. Tom Peterson's also a good man. But Mullane is a BankAmerican, born and raised inside and has done lots of tough jobs. Today he handles all of our dissidents -- the Bob Gnaizdas, the Greenbelt, the dissidents who always want the bank to do more for the disadvantaged.

LaBerge: So he's still in community reinvestment things and the foundation?

Clausen: Oh, yes. And we get in trouble in all those things -- when we have CRA problems, when people think that we are not giving enough to minorities or when we are being accused of redlining, which we don't. Today CRA really goes in and looks at our practices. They come with surprise audits.

We don't know where they're going to be. They look at all our applications and our approvals and our declines for a certain section of a city. And then they measure it statistically to see whether white Caucasians are getting 65 percent approved and blacks are only getting 30 percent approved, and whether they can track that to square blocks, sections, ghettos, Hunters Point, or whatever. When we were acquiring new entities, Mullane and his group were the ones who went in to New Mexico, Nevada, or wherever to teach them the right lending practices. There's a lot of discrimination in Hawaii, for instance, but you wouldn't think so. It's the land of milk and honey. That's Mullane's job today. Plus he manages philanthropy, which now totals about $22 million or $23 million.

[Reference: End of Tape 26, Side A. Begin Tape 26, Side B]

Matching Gift Program

LaBerge: The matching gift program at Bank of America was a pioneering effort. Didn't you lead the way to implementing that when you were CEO the first time around?

Clausen: Yes, and I guess I felt at the time I did it that one of the things I would be remembered for at the Bank of America would be the matching gift program.

LaBerge: Okay, tell me about that.

Clausen: Before I went to Washington, I felt very strongly that our bank ought to join the philanthropy of our employees – that is, we should match our employees' contributions in where they wanted their own personal monies to go. With certain limitations, of course.

LaBerge: Did you institute that?

Clausen: Yes. And I had it up to a maximum of $7,500 in three traunches. One was for education generally. You could give in a charitable way to a day school (none of that went for tuition for your kids) and Bank of America would match that. The result was a happier employee and a stronger organization identified for us by the employee. It helps our shareholders through stronger communities. The other two traunches were to performing arts, and for hospitals and medical research. The Managing Committee had approved matching employees' contributions in each of those three categories up to $7,500. So if I'm an employee, and I wanted to

give $7,500 to a university or private school or whatever, and they're 501(c)(3) organizations, Bank of America would match that. The same for performing arts -- $7,500 for the opera, ballet, or symphony. And also $7,500 for medical research, hospitals, and so on. In sum, I could get a total of $22,500 from Bank of America to match my own contributions in of each the three areas.

When I came back in October 1986, I had to turn off the faucet. The bank couldn't afford it just then. I also had to cut back or drop the bank's contributions to organizations that had been counting on our support for say, $10,000. I remember getting a call saying, "We understand your problem, but please just keep us on there for $1000 so we can list you as a contributor, because the name Bank of America makes us look better." I could understand that but I had to say, "No, we've just given too much." So I shut it off. And no matching contributions. I guess that knocked a million and a half off of our philanthropy. Every little bit helped, particularly with the regulators.

Then when we started it up again, we started with a match of $10,000 in the aggregate. That was the most a single employee could get from the bank in the matching gift program. This was after we were paying dividends and we were doing better.

Once we were on the road to recovery, I can remember the first big gift we gave was to the business school at the University of California. I asked them to sit on the announcement until we paid the dividend two or three times. So I think I asked that in February and we paid the dividend in February, June, and September. So in October, [Chancellor] Mike Heyman and [Dean] Ray Miles announced the $1.5 million gift for the Bank of America plaza in the new complex.

And then at a subsequent time, Dick Rosenberg figured that the principal beneficiaries of a $10,000 per employee cap went to the better-off employees. Therefore it was unfair in a way that discriminates against those that are less financially strong and who give less. So we cut it back to $5,000, which bothered me a little bit. I could no longer say that our matching gift program was one of the most generous and giving. I would like Bank of America to have that reputation because I feel it very strongly in myself. I think the institution would benefit. Levi-Strauss has a reputation for being very fair and generous -- to employees and communities. I would like Bank of America to have that reputation as well. I like Dave Coulter's theme, that Bank of America has become the

"employer of choice." Where people *want* to work for us, and they *choose* to work for us. I think that's a wonderful idea to have in our thinking.

Bank of America is indeed perceived to be generous, one of the most generous organizations in the community, and *the* absolute most generous in the financial sector of the state of California. Somebody made a study of that under Dick's watch. Dick was CEO at the time, and it was found that 45 percent of all the giving in the state of California from the financial sector – this includes finance companies, savings and loans, banks, insurance companies, et cetera -- 45 percent comes from one organization: Bank of America. We don't think we're being *too* generous, but that's kind of upsetting. We were carrying more than our fair share. So we took a slightly different tack. We told organizations, "All right, we'll give $100,000 if you can get $250,000 from someplace else." It was kind of a matching gift program, but on a very high level. There was a string to our gift. To get our $100,000 the organization had to get $250,000 or $300,000 from someplace else, and so on at different levels for different amounts.

Mr. Clausen's Personal Contributions

Peggy's and my life has changed since 1954 when we first started to tithe to the church, to give 10 percent of our income to the church. At the time we had no kids and a double income – I think they're called "dinks" -- d-i-n-k for "double income." Don Mullane also believes in that. We get our senior officers to give to the United Way--Dick Rosenberg has the Bay Area United Way Campaign that's just starting now. Inside the bank we gave the campaign to Mullane to manage because we were dogging it. I am a United Way freak myself. I have that empathy for the disadvantaged. It's honestly difficult for me to say no. My reputation has gotten out and I get an awful lot of mail, even though the foundation that Peggy and I have is a little bitty one.

[Reference: End of Tape 26, Side A]

Winslow Christian

LaBerge: Let's talk about some of the other key senior people. What about Winslow Christian? You once told me something about him.

Clausen: Winslow Christian is an attorney. He was a judge. Winslow was hired by George Coombe before I came back. He was here to be in charge of our

litigation section of the legal department. Having been a judge, Winslow knows a lot about litigation. He was a person with complete integrity.

LaBerge: That's what you had told me before, that he was your conscience.

Clausen: I put Helmut Loring and Cherie Knowles Sorokin in that category of complete integrity. When Masternet was blowing up, I needed to know the facts of it. We had invested $86 million in it. Is it ever going to work? Should we continue and invest more money, or should we walk away from it and close it down? Who was at fault? I needed to know all of that. I went to Winslow to look into those things. Our systems group was involved, but systems was saying, "It's not us. It's the head of the trust department." That would have been Clyde Claus, who came from Marine Midland Bank. I told Winslow, "Help us. Find out the facts and come back to me."

Well, Winslow's report was that a lot of people were at fault. Cooper had his fingerprints all over this. I had to fire Lou Mertes, the head of systems. I asked him for his resignation and the forfeiting of his options and other perks. I had to get rid of Clyde Claus because his fingerprints were all over Masternet, too. And I would have had to fire Cooper had Cooper stayed and not left in April 1987.

LaBerge: Winslow Christian helped you to figure this out?

Clausen: Yes, he did. And his examination answered my questions. Masternet was a disaster, and we had to charge it off and take a big loss. We had reserved some money for it and now we had to reserve for the rest of it. I stopped the project. Enough was enough. Don't pour good money after bad. There's an old saying among bankers: "Your smallest loss is your first loss." The point is, don't keep feeding and feeding the loss month after month after month and then pull the plug on it later, because then it's a bigger loss. The first loss is the smallest loss. I felt that was the philosophy I had to apply to Masternet.

That was thanks to the work of Winslow. I have high respect for him. He is a good lawyer. He has good, sound judgment. He always kept his powder dry and never jumped to conclusions. He was very thorough, a good analyst, and he contributed much to the bank in those heady days.

Agriculture and the Wine Industry

LaBerge: What about agriculture and the wine industry? Winslow had a role in helping work through problems there as well, didn't he? We have a big series of wine interviews, and I was looking at Alfred Fromm's. There you are right in print: he had a good relationship with you and the bank. So start with telling us, what's the big picture of the bank's relationship with that industry?

Clausen: Well, I was just at the bank's retreat and I learned that from the horse's mouth -- the horse being Mike Rossi, the bank's current head of Loans. I asked him, "What percentage of the wine industry are customers of Bank of America? He said that of the borrowings, 62 percent. We've always had a big impact.

[Reference: End of Tape 34, Side A. Begin Tape 34, Side B]

Clausen: We had a pretty strong position in the wine industry in the state of Washington because Seattle First was the dominant bank in the state and then Ranier, which we got from Security Pacific. That combined to give us a bigger percentage of the total business in that state than we have here in California. California is maybe middle forties.

But way back, we had a dominant position in the wine industry before Prohibition set in. Prohibition lasted from 1920-1933 and business was not very good after Prohibition was eliminated. So we did a lot of warehouse lending, secured lending. You can technically and legally warehouse something in the field, even a growing crop. You can lend on a crop, say wheat, when it's put in barrels and moved to an official warehouse where it's locked up and well secured. That was kind of the lending in those days.

Giannini was a pioneer in financing agriculture way back in the early teens. A.P. Giannini decided that our bank was going to trust people. Earlier, banks would wait for the crop to be produced and weighed and put in a warehouse before they would lend on it. S.P. decided we weren't going to wait for that. We're going to provide the agriculture farmer money to buy the seeds, to cover the expenses of pulling the weeds, and plowing the furrows in the field and all that, *before* there's a harvest. We'll have faith that the farmer will be proficient enough to get it done successfully, plus our lenders will also be there with the proficiency to

help through advice and discussion with the individual farmer before there's a harvest. Then when it's over we can get our security at that time.

Bank of America was a pioneer in lending to agriculture and the wine industry. During the forties, fifties, sixties, and seventies, we were the largest lender to agriculture in California. I want to say that our balances of outstanding never dropped below $700 million or $800 million. Those are pretty big numbers. If you go far back, outstandings might peak at $1.3 billion. We financed cotton, wheat, vegetables, fruits and nuts, the whole shebang. And we still do.

During the 1980s, because of lenders' liability, we had any number of suits where farmers got into difficulty – say, they had produced a crop which they could not liquidate. Then after a while, we would foreclose. There were some rather big suits and when I came back we were loaded with suits. Everybody, in a manner of speaking, was suing Bank of America. Several of these big suits involved the owner or the former owner of a ranch or farm which had been foreclosed. The rancher was suing Bank of America for being unreasonable in our advice and in our demands, and we should have let them have more time. Winslow Christian came in to manage our litigation, mostly defense, but he also sued people too. I thought Winslow Christian was nothing short of fantastic. One by one these suits were resolved and we were winning them. We cleaned up a whole mess of outstanding suits against the bank.

The wine industry is still a very big part of our lending to agriculture. So many new wineries have started in the last ten years; it's just fantastic. I used to pay a lot of attention to wines. I have a "hollow leg," as they say [laughter]. I used to like wines and made many friends through the years. I've paid less attention to it in recent years. But even after I came back, I had two big dinners in wine country: one at Beringers and one east, around the Wente crowd. We make no differentiation: when we have a dinner for our customers in the wine industry, we invite the Livermore crowd when we have it in Napa, and the Napa crowd when it's in Livermore.

We had one of these just last Thursday night. The Santa Rosa commercial group invited their most important customers to have dinner with the board of directors and the senior officers of Bank of America. All six or seven vice chairmen were at our retreat. And 160 or 170 people were at the dinner, just as an expression of appreciation for the relationship. And some prospects were also invited to those affairs to show our commitment to the industry. It's an important part of our history beginning with the Giannini family and today it's an important addition to our business

bottom line. Percentage-wise, it's not as important today, because we've expanded our business to offer so many more products, and we've expanded our business globally as well, but it is still important.

The One New Customer Campaign

LaBerge: Bank employees must have been war-weary with the years of bad news. Were there some specific things you did to get them involved in your plans and keep them connected?

Clausen: In the first quarter of 1988 I gave a report to employees on the condition of the corporation and the bank and the progress we were making. And in my talk I said they could personally help us sustain the recovery and accelerate it. I asked each employee to make a special effort to bring us one more customer before the quarter was out. I said that now was the time to grow the business again and it was time for each of us to help in our own way – one-on-one. I had special postcards printed and addressed to me that employees could fill in with their name, the name of their new customer, and the type of new account they had opened. Initially I got several thousand postcards. I liked the results so much that we made it into a full blown effort and called it the "One New Customer" campaign.

LaBerge: Was it a success?

Clausen: I thought it was an outstanding success. I got 18,000 postcards. The new accounts employees got for us represented close to $10 million additional annualize revenue to the bank. I responded personally to every one of those postcards and thanked that employee. I had two or three people working on those letters getting them ready for me to sign. I heard that at least one employee thought their letter must have had a printed signature, and they wet their finger and ran it across the signature to prove their point. They were quite startled to find that it smeared the ink.

At same time, at the senior management level, we were cleaning up the balance sheet, charging off old loans, and getting rid of the redundancy and bureaucracy and other kinds of costs that had soared out of control.

Take Ownership

Another thing we did was that as soon as we started the dividends up again we gave practically every employee in the bank ten shares of BankAmerica Corporation stock and an extra day off. At that time, the market value of the stock was about $21 per share. It didn't go to the

seniormost officers and employees in some foreign countries that don't permit their citizens to own stock in another country. But where we could we gave every employee ten shares of stock as a thank you and reward for their hard work in the previous year. It was a total surprise, and I received countless letters and thank you notes signed by everyone in a bank unit.

Employee Opinion Surveys

LaBerge: You've been a proponent of conducting opinion surveys with your employees, haven't you? How did you use those surveys?

Clausen: Opinion surveys are another way to have employees think about the goals of the corporation, of their employer, how management is going about achieving those goals, and how well communication is flowing to them about those subjects. We did an employee opinion survey every year and asked employees for their honest feedback. Then managers and senior managers reviewed the results and made plans to improve things in the coming year. When a process like that is run well, it builds credibility with employees and strengthens their involvement. Bank of America is a big a big ship and the goal is to get everybody pulling on their individual oars in unison so the ship moves forward quickly in the right direction. This takes communications. Strong, open, candid, trusting communications.

I said earlier that "trust breeds trust." I believe that in the marrow of my bones. If I trust you, there's going to be a greater tendency for you to trust me. And if I'm a little suspicious of you, that's going to breed the same reaction in me. If I'm the manager of a big monolithic bank and I want you to trust me, I'm going to get more of your trust first by being square with you, honest with you, candid with you, and trusting you.

I trust the voters of the United States to know intuitively what's best. Of course there's a lot of hype going on now, a lot of snow being shoveled and a lot of misstatements and hullabaloo. But I really trust the people to pierce that veil and get through all this hollow stuff and do what's right. It's the same for employees.

Tapping Into Bank of America's Corporate Heritage

LaBerge: Employees in Bank of America have a uniquely special corporate heritage. Were you able to tap into that to help you engage employees?

Clausen: You're right that it is very special. When I came back, we put our focus on celebrating Founder's Day around the bank. That's A.P. Giannini's

birthday. He was born on May 6, 1870, and it used to be that on Founder's Day we would pause in all of our branches around the world and hold a small ceremony to honor A. P.'s memory. A.P. died June 3, 1949, and I had just hired in to the bank on May 1, 1948. I remember going to a rosary for him, but I didn't know whose rosary it was. I asked, "Who is A.P. Giannini?" I was told he was the founder of the bank. I didn't know. I was just a lawyer from Minnesota needing a job, and I had a job counting cash in the vault. Of course, I came to know a great deal about A.P. and his philosophy. The CEOs – myself, Rudy, Clark, and Carl Wente before him – all celebrated Founder's Day. I assume that Mario Giannini did too. We used to make a record each year and send one to each branch, so they'd play it on a little Victrola on Founder's Day. They'd display red roses and hold a fifteen or twenty-minute ceremony about the great virtues of A. P. Giannini and his philosophy of using the bank to help people. The bank was very strong in the fifties and the sixties, even in the seventies, and it's heritage was an important factor. Today that impact is pretty thin. No one is still working who remembers A. P. Rudy does, but Rudy's not working. Nobody working remembers Rudy.

All during my time, every May 6th, we had a little ceremony on the executive floor, and we invited A.P.'s granddaughters and his daughter, Claire Giannini Hoffman. She was born the same month and year that Rudy Peterson was, December 1904. Rudy will be ninety-two this coming December and so will Claire. She's very ill now. She's housebound and in a wheelchair or walker.

When I came back, employee events were held all over the bank and we did videos about A.P. and the bank's history. Senior officers attended those events. There was a lot of effort put into Founder's Day.

Taking Care of the Bank's Archives

I spent a good part of the afternoon over with Marilyn [Ghausi], the bank's archivist. I had promised to go over and see what was there and talk to her. The Archives has nice quarters now, a nice layout, but oh, that's a lonely job. No one there, just the guard! My goodness, it would drive me nuts [laughter]. You've got to talk to somebody; we ought to put someone else in there or she'll go crazy. You feel so lonesome, so not a part of the organization, so off to one side, which is wrong.

LaBerge: It's a beautiful facility.

Clausen: And it's secure. Finally we're doing something right with the archives. We had lost sight of what was important.

Renovating ERMA and Creating an Exhibit

After I'd been back at the bank for a while, Al Zipf, who was retired, came to see me. Al was the one who managed the ERMA project [1950-1955] and got the world to accept magnetic ink character recognition on all bank checks. Do you know what ERMA stands for?

LaBerge: Electronic --

Clausen: -- Recording Method of Accounting. It was the world's first use of computers in business operations and it originated here in Bank of America under Clark Beise's administration, working with the Stanford Research Institute, now known as SRI International. They built a computing machine by hand to do automated accounting by reading magnetic ink on the bottom of checks. Today perhaps 99.44 percent of all the checks in world use that magnetic ink system.

The original machine used a great many vacuum tubes and it was like walking into a furnace, because vacuum tubes get hot, like a light bulb. After the prototype was demonstrated, dozens of equipment manufacturers wanted to produce it. But Bank of America contracted with General Electric to refine the design and manufacture over 30 production systems. Al Zipf and his team then worked around the clock to improve the system before it was duplicated. They transistorized it, thus reducing the size and the heat; they gave it more memory and switched from bar-coding to MICR [Magnetic Ink Character Recognition] encoding. And they designed a high-speed check sorter that could proof the checks. When they started using the system, it revolutionized the backroom operations of banks and, for that matter, all businesses. Today we couldn't operate this bank, period, were it not for computers, and the automatic reading of checks. It would be interesting someday for you to just walk through that the processing center for a couple of hours and see what Bank of America processes -- "clears" is the word. Bank of America clears at least 10 percent of all the checks written in the United States. This is one bank. And there are something like 10,500. We couldn't process all those checks without the electronic magnetic ink encoding that was invented in the ERMA project.

LaBerge: So what did Al Zipf want to see you about?

Clausen: When Al came to see me he was almost in tears. It turns out that the bank had one last ERMA system still in existence, but it was in the basement of a bank building over on Market Street, and it was covered over with junk and old machine parts. Al told me, “You know, that was the ERMA that we hoped to give to the Smithsonian some day, because that’s where it belongs. But it’s been trashed.”

LaBerge: What did you do?

Clausen: Al asked me, “Can I gather together twenty or thirty guys to work on it? It's going to take me a while, because we don't even know where the pieces are. They’re in boxes strewn on the floor.” I said, “Absolutely.” So the equipment was moved out to our Livermore warehouse and the employees there put in over 5,000 hours of their own time to rebuild it. When it was finished, it just shined. So then we had a mini-museum created in our technology headquarters building in Concord and installed it there. We unveiled it at a special event where we invited back the people who worked on it – from SRI, GE, and Bank of America. Al Zipf was a fabulous person, and so we surprised Al at that event when we unveiled a plaque on the building stating that it was now named “The Al Zipf Building.” Al was overcome. People want to be recognized. People want to be appreciated. People want to be loved, not scorned, and be recognized for their contributions.

From that time on, the ERMA museum was a popular spot to visit with employees. And it sent a great message to employees about what we value in the company. And today ERMA is represented in the Smithsonian.

LaBerge: Oh, it is?

Clausen: Yes. And that’s as it should be. I've always been interested in the historical part. I think it's important, particularly for an institution such as BankAmerica Corporation. And I'm biased, prejudiced that we should preserve our heritage and record the memories of what goes on so that future scholars can learn from it. I hope that’s not immodest.

LaBerge: Oh, it’s not.

Clausen: It's not meant to be vain or arrogant. We leave chicken tracks. Who could tell the story of our history but the Rudy Petersons and the Clark Beises and our forebears? And if we don't pick it up while they're here, it's gone forever.

Drawing on the Historical Memory of Retired Executives

LaBerge: You brought in some of your retired senior execs, didn't you, to do just that – to talk to your current senior officers and pass on some of that history?

Clausen: Other corporations, when you're out, you're out. But the Bank of America has a friendly regard for senior officers, even some no-good-bum senior officers that are on this floor. And I don't mean on this end. Maybe on the other end [tongue-in-cheek]. There's a lot of affection in the bank. When I was CEO the second time around, I found that we had all these guys from other banks now on our senior team. I felt we needed to build an historical memory that drew on the best of the past. We had an upcoming manager's retreat, so I asked Chauncey Medberry, our former chairman, and Rudy Peterson both to come. Rudy Peterson started work for the bank in the early thirties. He has a unique history, both here and at the Bank of Hawaii and after he was brought back. I

LaBerge: So you wanted Rudy and Chauncey to speak to the retreat group.

Clausen: Yes. But I asked them not to talk to each other first. Chauncey Medberry was hired early on as well but he and Rudy took different paths to the top, so there wouldn't be much duplication. And if there was, that would be a point worth emphasizing. So I told them, "Don't get your act together. Be natural and talk to us." And I set aside one whole evening. A happy hour for forty-five minutes, then dinner at seven. I don't believe in long happy hours. Boy, I really don't. And then dinner for an hour and fifteen minutes, so we could then have a long evening of discussion.

And I have to tell you, Rudy and Chauncey were marvelous. Everyone got something from hearing them talk. That made a dent on rebuilding the historical memory. So it was worth it. But we're still suffering from a loss of historical memory.

Bank Committees

LaBerge: Let's talk about committees. Is that the way the bank is run? Or what's their function?

Clausen: How do bank committees function? Do they run the bank? No, you can't say committees run the bank. Bank of America has used committees as a way to improve the quality of judgments that need to be made on complex issues. There's a Managing Committee that meets weekly and still does to

this day. It still meets on Mondays for however long it takes to handle the issues that are before it. There are copious minutes taken, which are strictly for the eyes of the board of directors. The board of directors now meets nine times a year and uses committees in the same way – to improve the quality of judgment on complex issues. Each board committee is dominated by outside board members. Outside directors are critical to give the stockholders impartial oversight of the job being done by the bank's day-to-day management. As we speak, only Rosenberg and Coulter are bank officers who are also voting members of the board of directors. All the other directors are outsiders. At this time, I believe that Rosenberg is the chair of the Executive Committee, but all the other committees are chaired by outside directors.

Coulter is an ex officio member of all the other committees. There may be some officers of the bank who have the title of vice chairman, but who are not board directors. These officers may sit with certain committees when they meet to help them in their deliberations. The Auditing and Examining Committee comes to mind in particular on that. That's a very important committee.

The Managing Committee

Within the bank itself, the most important committee is the Managing Committee.

LaBerge: Okay, tell me more about that group.

Clausen: All the principal functions of the bank are represented. All, that is, except legal and the controller's function. I think I told you my view about that – those two functions need to be able to criticize the stupid decisions and judgments that come out of the Managing Committee. And if you participate in dumb decisions, then you can't criticize.

The Managing Committee has eight or nine members, mostly vice chairmen of the bank. It meets weekly and it's chaired by the CEO. There is always an agenda and there are papers beforehand so that they can do their homework before they meet and make judgments. They discuss the topics collegially.

Money and Loan Policy Committee

LaBerge: You have a Money and Loan Policy Committee too, don't you? That's a very important committee as well.

Clausen: It certainly is. It's one of the most important committees in the structure of bank management. The Money and Loan Policy Committee establishes macro policy for how we handle our investment portfolio, how we deal with investing pension funds for our employees present and retired, and it establishes policy for making loans. It has looked at what our loan policy should be vis-à-vis oil, vis-à-vis financing procurement by developing countries and other countries of military equipment, our policy vis-à-vis the environment, our policy vis-à-vis the political environment of the world and its specific countries. It sets policy. The execution within that policy is handled elsewhere.

The Committee has to look at the types of loans we're making to make sure the proportion is right among the different types -- how much real estate, how much timeplan, how much commercial, how much domestic, how much international. The Money and Loan Policy Committee has subcommittees on currency, exposures, maturity risks, and all the risks that are involved with managing a balance sheet of $240 billion. Those are operating committees, really.

In earlier years, the functions of the Committee were handled elsewhere separately. I established the Money and Loan Policy Committee to include, in one place, pricing for both assets and liabilities -- for both loans and deposits, and the various kinds of deposits -- with the heads of the key functions in the bank participating in that committee.

LaBerge: Do you still have the General Finance Committee?

Clausen: No. The Money and Loan Policy Committee came later as we decentralized more and more the making of loans out of General Finance Committee. The GFC was earlier known as the General Loan Committee. It had been around for decades, and in its time, it was really the second most powerful committee in the Bank of America structure.

LaBerge: So what did the General Finance Committee do?

Clausen: The General Finance Committee approved loans over a given size. Let's say at the end of 1970 when the bank was a bit less than $30 billion in size, and our loan totals were almost $16 billion, a loan of say $5 or $10 million could be approved without going to committee. But above that, loan presentations had to be made to the Committee by the officer involved in the loan. Among the Committee's membership were the heads of corporate finance, real estate, timeplan, et cetera.

LaBerge: So someone stationed in Europe would have to have one of their loans approved?

Clausen: That's right. The head of the World Bank was domiciled here in San Francisco. The head of the Europe, Middle East, and Africa Division – EMEA -- was almost always sited in London. He would come back to San Francisco quarterly, but there were people located in headquarters who knew the micro details of all the major relationships around the world and knew the account and the details of the loan request. The loan request might finance a project, et cetera. It was not done at arm's length; the people involved in the credit came before the General Finance Committee. We didn't fly them in from over the world, but we might on financing a very large project, say, Bougainville Copper.

I see that Bougainville Copper is on your list of things to cover. The General Finance Committee approved that project in the late 1960s. I was head of corporate finance at the time. Sam Armacost was the day-to-day guy on that account. At the time, my position was not a member of the General Finance Committee, which I thought was ridiculous because we were bringing in the major credits to that committee. They all flowed through our department, and our knowledge and experience could contribute to the quality of loans on the balance sheet at Bank of America and thus BankAmerica Corporation.

In my example, either Sam or I -- usually Sam and if Sam couldn't do it, I -- would make the presentation to the General Finance Committee and always with a recommendation. The General Finance Committee didn't sit there and decide among themselves what should be done. That was decided between the negotiators, the loan account officers, and the customer, and then that was presented to the General Finance Committee where the arguments were made.

It was a cumbersome process, and sometimes the members of the loan committee would do what was in effect grandstanding. Someone might declare, “We ought to get five-eighths fee on this, not a half. What are you guys thinking of?” He would have just pulled that figure out of the air. Those statements had to be beaten down. I really objected to that process. The account officer should be responsible, and the department from which that account came from should be responsible. That's the way it works now. The head of this department, the head of that department, or even individuals by name can group together. And if you want to make a loan for the legal lending limits of the bank, which is way over a billion dollars,

you have to have more experienced people making that judgment than, say, to make a loan for a million dollars. That's the system now.

LaBerge: Did you have something to do with changing that?

Clausen: Well, I had something to do with implementing it. I've always been a decentralist and I tried to decentralize loan approvals. When you have adverse economic conditions -- higher unemployment, fewer jobs, and high interest rates -- where the macroeconomic indicators are flying against what we're trying to do, the quality of loans deteriorates. When that happens you organize differently. When I became the CEO, we decentralized what was called the credit department. In those days we were making loans at branches. The credit department had senior credit officers who would sit and look at what a branch did vis-à-vis specific individual loans. They might decide that this loan is too liberal even to the point where the interest rate is wrong. But my belief was that it's wrong for a central credit department to say what interest rate should be charged in Imperial Valley. By the same token the guy sitting in Los Angeles or San Francisco really *cannot* judge what interest rate should be charged by our London office to a German corporation. That's based on local competition. But that's what they did in those days. That was changed. Now loans aren't made in our branches. They're made in specialized facilities. The loan application is referred by our existing branches up to central command posts, be it in timeplan or real estate or whatever. It's a different system today.

But the General Finance Committee was part and parcel of this earlier approach. You had to write up the loan on a certain form which gave you a checkpoint of all the things that ought to be included: comparative financial statements, flow of funds, history, past banking experience, quality of management, all of that -- the common sense things. And then somebody would actually present it to the General Finance Committee and stand the inquisition from the members of the Committee, who were the most senior people in the bank insofar as loans were concerned.

Today, they have a different system. There is no General Finance Committee. There's a Money and Loan Policy Committee to look at whether our policies are right and review the composition and diversification of our portfolio – the geographic diversification, industry diversification, and customer diversification -- not only on the asset side, which is the loan side of the balance sheet, but also on the deposit side, the liability side of the balance sheet.

When I left to go to the World Bank, we were a $111 billion bank. It used to be that the most we wanted to accept from any one depositor was a billion dollars. We didn't want to get ten billion dollars from one customer, or even two billion dollars, because that was too much of a concentration. It was far better to have that ten billion dollars in a hundred accounts. So we would diversify it that way. And even today, we have oversight committees that look at that. The Auditing and Examining Committee looks at that. That's nothing more than common sense. So committees can serve an important oversight function as well.

LaBerge: When you first became CEO in 1970, there were enormous changes taking place in society with unprecedented demands on corporations regarding their role. Did that make it even harder to good decisions?

Clausen: It certainly did. We were in uncharted waters, and if ever there was a time that needed the best possible judgments, that was it. But our committee approach was a strength for us. For some time, I had believed that hearing different perspectives on the same issue could improve the quality of the management of an organization. That was clearly the case in the 1970s with the Public Policy Committee of the board of directors. It was chaired by an outside director and comprised mostly of outside directors with a senior bank officer, a non-director, sitting in to help them. We then put in place within the bank a matching committee of officers. It was called the Social Policy Committee and it looked at many of the same issues, let's say affirmative action and advancement of women. Are we doing right? Is there a hidden discrimination or bias against women even on the Compensation Committee? Do we underpay women or are they getting a fair share? The Social Policy Committee looks at it because these are employees of the bank who are in the eye of the hurricane all the time.

The bank's use of both board and in-bank committees is a good system. Outside directors visit nine times a year and look at the same set of circumstances but have a different perspective. They have a different set of experiences or combination of experiences. They want to help Bank of America be better managed and address these complex issues just as much as our employees do. The challenge for the CEO and management is to create an environment to have a free flow of discussion in a collegial way for those participating in the decisions. Everyone wins when they can express their views without fear of getting their knuckles rapped, or being told, "Boy, what a dumb thing that is." This collegial kind of discussion has to be encouraged to be candid. But the object is to make us a better institution.

Senior Management Council

LaBerge: You also had something called the Senior Management Council.

Clausen: Yes. It used to be called the Management Advisory Council.

LaBerge: Did you institute that group?

Clausen: Yes, I started the Management Advisory Council. You might ask, "Advisory Council to who or what?" To the Managing Committee, to the CEO. It met monthly, almost always on the Friday before the board met. At that time it was only about twenty-five members. Today the Senior Management Council may be thirty-five or forty members. Everyone had a chance to speak for about five minutes to advise the other members of the Council about what was going on in his or her function. They were to report on new loans and big wins and big issues and problems. One critical goal was that there should be no surprises. It was terribly beneficial to me, the CEO, to spend three or four hours a month with officers around the table finding out what was going on.

It helped them too to know more about the entity. It fostered the idea that I'm not just working for say the Personnel Department; I'm working for the BankAmerica Corporation. I can't just look with green eyeshades on *my* little universe and *my* desk or group of desks. I have to see my group of desks in the context of the whole. Internal communications are terribly important, particularly horizontally across different areas of the bank. Bottom up and top down communications are relatively simple. But you have to work especially hard to get good communications flowing horizontally across the bank.

Also, there is great value in having open discussion in a group of people. An important management lesson came home to me through open discussion when I set out to create a World Banking Division. Under Rudy's administration we had a National Division, we had an International Division, and Rudy created a Multinational Division, taking the very biggest of the corporations in certain industries around the world and placing those relationships in a Multinational Division. I came to see that as a bit redundant, so I wanted to combine them to have a World Banking Division. We had fifty-five people sitting around the table on the fifty-first floor of this building to hear the report about this. And during the course of five or six months, we had several of these meetings to discuss whether we should do this and how we could put all these three divisions together. What I learned is that you shouldn't have one division take over the other

two because if you're not in that division that's taking over, you're a loser. So therefore we should create a new entity and absorb all three so everyone is smiling, everyone's a winner, and no one's a loser.

On complicated issues, I bring everyone around the table. At the outset, they are told that the goal is to reach a consensus opinion. Everyone hears everyone else's reservations. For complex issues in an increasingly more complex world, everyone has reservations. They might say, “Sure, I'll agree with you if you can do this, that, and the other thing first and then follow it up very strongly with this.” You get the caveats out on the table. I would argue to my death that it improves the quality of the judgments. Critics of this managerial system say that that's how you postpone making decisions, that it's like a committee trying to make a horse, but ending up producing a camel. But when you approach it as a way to get to a judgment and to improve the quality of the judgment, it can work wonders. But you have to conduct it in a way in which everyone can speak their mind and disagree, but they know that they're going to reach a consensus opinion. I don't think a consensus opinion or judgment is necessarily a bad judgment. I think it's the best judgment because the object is to pick the least imperfect solution. Whatever decision is made is not going to be utopian because it's not a utopian world. But to pick the decision that will have the least negative impact and the most beneficial impact of all the imperfect solutions to the issue involved, that's the Bank of America committee structure.

Loma Prieta Earthquake 1989

LaBerge: I understand you were working in the bank’s headquarters building when the Loma Prieta earthquake struck in 1989. Were you up on the fortieth floor?

Clausen: Yes, I was. Everybody else was at the cross-bay World Series down in Candlestick Park. This was the first game of the series. In 1989, we were still trying to pull BankAmerica back to its preeminence, and we were making good progress. I was working, I won't say around the clock, but I was working very, very hard, long hours. I was in this building on the fortieth floor, and then the lights went out at four minutes after five. We waited and waited for the electricity to come back on so the elevators would work. We did have radio, so we knew the damage was extensive. The phones worked for a while, but then we couldn't get many calls through, so I guess wires were down.

We could see from our window that the traffic on the Bay Bridge had stopped. We learned later that part of the bridge on the Oakland side of Yerba Buena [Island] had collapsed. At the time, we couldn't see that far, but we saw that traffic had stopped and there was nothing coming this way. So we knew something was wrong. The collapse had not yet been picked up on the radio.

In 1989 I was beyond the age of presumed senility [laughter], and my staff would not leave. Helen was here and two other secretaries. They would not go unless I went, so I said, “Okay, come on.” I didn't want to show how old I was, so I really charged down the steps.

LaBerge: Oh, all forty floors?

Clausen: Forty floors. I didn't want to stop and rest, because I didn't want them to see how out of condition I was. And out of that came the fact that I had to replace the knee. I had trouble with the knee before; I had had arthroscopic surgery, and also before they discovered the technique of arthroscopy, I had a cut in the early seventies. The Loma Prieta earthquake took place in 1989 and I retired in August of 1990. So it was about a year later that I had my knee joint replaced. Today it works fine. The only sacrifice I've had to make is that I had to give up pole vaulting. On the way up it was fine, but on the way down, I still wanted to land on the left knee, which hurt. Seriously, going down steps is harder on the joints than any other exercise.

Corporate Results in Mr. Clausen’s Last Year

LaBerge: We’ve covered a lot of ground since we started talking about your return to Bank of America. What were the corporation’s results in your final year?

Clausen: I came back in October, 1986, and retired again in May, 1990. The bank still was not well or whole, but it was certainly going in the right direction. The earnings for 1989, which was my last full year, was the best year that the bank had on a per-share earnings basis for probably the next five years. We earned more dollars in some of those years, but we had more shares outstanding.

So I felt we had done the job.

VIII. Retirement, 1991-1996

Move to the Retired Executive Office

LaBerge: Let's talk about your "retirement" now. This office is a nice one. Did you move here after you retired?

Clausen: Clark Beise died in early 1990 and I retired in May, so his old office was available to me then. I like this space very much. There's a Vignoles painting in back of you -- I moved that painting so I could see it. It's a late French impressionist and I love it. This is Rudy Peterson's furniture. Rudy had decorated the CEO's office on the fortieth floor and it was there in 1970 when I became CEO. Although he had been CEO since November 1963, this building wasn't completed until August of 1969. So he was only able to enjoy the CEO's new office for four months or so before I moved in at the beginning of January 1970. This carpet I call the jewel of the fortieth floor. It's a French tapestry carpet. That's an eighteenth-century partners desk. Those two chairs were also Rudy's. So was that little table, and so was the other one. And then when I came back to the bank this furniture was spread all over. The desk was someplace in the warehouse and I found it and brought it back in. So that's the power the CEO has -- over his own furniture.

World Affairs Council and a Global Interest

LaBerge: You have done a tremendous amount of community work over the years.

Clausen: The pro bono part of my career has been very satisfying.

LaBerge: And it hasn't stopped! You're actively involved in the World Affairs Council, aren't you?

Clausen: Yes, I am the chair of the World Affairs Council of Northern California, which has been taking more time than I had counted on. But here's my arrogance again. If I were the World Affairs Council looking for somebody to chair it, I would go to someone who understood the world, and I'd try to get Tom Clausen. So I succumbed, because the world has been my territory, something that I have been involved with ever since sitting around the wood-burning stove in the kitchen in the house in Hamilton, Illinois, with my father hearing on radio of the Japanese invasion of China, and my father explaining it. This came at an impressionable age and ever since then, I have had a world view.

My father was born in Norway, and he told me a lot of stuff about the world, and I think I have always had a hidden ambition to be involved in world affairs that help those less advantaged than we are here in the United States. That ambition was increased from my involvement with the United Way. The purpose of the United Way is to create stronger communities. And that ambition was focused even more in carrying out the fundamental purpose of the World Bank, which is to raise the standard of living of peoples in the world and help those countries that are at the bottom of the pyramid and desperately poor. Well over a billion people on planet Earth are below the poverty line -- defined as not having enough daily nutrition to keep their minds sharp.

I believe strongly and would argue publicly that even in the United States too many of our youngsters today are arriving at kindergarten and first grade no longer having the capacity to learn, because in their earlier formative years they did not receive good nutrition or the right nurturing and loving care. It’s a tragedy.

That's why I like the CED [Committee for Economic Development] approach to education, which is preschool and prenatal, in contrast with the approach of Chubb and Moe, which begins at kindergarten. John Chubb is still down at Stanford and Terry Moe, who was at Brookings, created the K through 12 approach. I believe you've got to start before kindergarten. CED says that it starts at the beginning – it starts with the health of the mother during pregnancy. Too many infants are arriving today whose capacity for learning is destroyed in their early years. Part of that's nutrition. They're not getting enough calories each day. All of that has impressed me. Family planning has impressed me, and Peggy and I have been contributing for family planning for a long time.

LaBerge: Tell me more about the World Affairs Council of Northern California and your involvement there.

Clausen: Currently, I'm the chairman and the World Affairs Council of Northern California is the largest of a good many World Affairs Councils in the United States, including the one in New York. We have 11,000 members and we stage about 250 programs a year. And we try to launch good initiatives. For example, we asked George Shultz to come to lunch and meet with a few presidents of Bay Area philanthropic foundations to explore ideas that the World Affairs Council had. George is a world figure and is very supportive of anything involving bettering the world.

Attending a Program on Sub-Saharan Africa

Just the other day the World Affairs Council had a program on black Africa and the challenge of its development. They had invited Robert Hawkins to speak. Hawkins is the head of a think tank here in San Francisco [Sequoia Institute] that finds scholars and helps them publish works on development. He had spent six weeks in black Africa, and he was going to talk about his experience at lunch. You pay seven dollars and you get a stale sandwich and a warm Coke. I was pleasantly surprised that a lot of people showed up to learn something about sub-Saharan Africa, which is unusual. I went because I have a keen interest in the subject. I have, and continue to have, what I call a love affair with black Africa. I told you I think the development challenge of black Africa -- sub-Saharan Africa -- is the greatest development challenge on planet Earth, bar none, taking nothing away from the poorest of the poor countries in Asia, like Nepal or Bangladesh, Cambodia, Burma, which are also very, very poor and need external help.

But if you roll the clock back to thousands of years ago, the Oriental societies were the most advanced societies in the world. The Chinese, for example were far more advanced than Egyptian or Roman or Greek societies. But black Africa does not have any historical memory of a rich history. It's tribal. Look at Rwanda and Burundi as examples, and the genocide that has occurred, which is tribally based. So I have a love affair for the challenge of the development of black Africa. It was natural then that I would be interested in this World Affairs Council program on sub-Saharan Africa.

Hawkins gave his presentation for a half hour, and then there was a half hour of questions and discussion, after which the attendees met in smaller groups to discuss the issues. Hawkins knew my background and my interest in sub-Saharan Africa and he referred to me quite a lot in his remarks. He made an interesting presentation, except that he was wrong a good deal of the time. That's my arrogance speaking. But I've been in all the African countries except six, and I've spent a lot of time there. I've never been to South Africa, Lesotho, Mozambique, and a couple of others. But I've been to all the rest and I know quite a lot about Africa. And Hawkins pushed my button.

At the end I found myself rising and saying, "I've just got to say something." I didn't say he was wrong. I am not too timid to say that, but I try to be diplomatic. I don't always succeed. (My wife says I rarely succeed.) But he was only giving the U.S. government bilateral view and

the view of USAID, which is an arm of the State Department. I told him, "You have said absolutely nothing about the multilateral approach." I said, "Implicitly, you're making a stronger argument for a multilateral approach where the resources of many countries such as the 180 or so members of the World Bank come to the aid of these African nations, because they're members and they can draw on that support. But if you and I are in a little bitty country, and the big old United States comes along, we're overwhelmed and awed. But we've also heard that the United States can be terribly arrogant and dumb and does things its own way with no sensitivity to our problems in our little bitty country. So we're more hesitant to take that advice and aid from the U.S. because we perceive the U.S. to be arrogant and have its own agenda.

"That perception is exactly what we tried to overcome with our initiatives through the World Bank. At the World Bank I preached that we had to have the right tone of voice and attitude toward these smaller nations. I did not want to be called a U.S. citizen. If the prime minister of Zaire was in town, I might say, 'I'm an international civil servant and I'm just as much a part of Zaire as you people are. You own me. You're my boss, and I'm here to help do what's right, putting to work the experience the World Bank has had across the globe for fifty years.' It depends upon the tone of the voice and the attitudes of the individuals speaking, but if it's well executed, it just works better. And in theory the United States shares in that accomplishment because the U.S. is the largest shareholder of the World Bank."

I felt I had to make that point. It bothered the speaker a little bit, but then I kind of wanted to bother him a little bit. He was not an expert and he knew it. He apologized too much. And it made his speech and his remarks less effective by saying, "Tom knows much more about this than I do. Don't you, Tom?" He called me by my first name, but everybody knew who "Tom" was.

As I've told you, I don't think I was born to be a leader, but I'm Norwegian, and when somebody pushes my button or tries to pin my shoulders to the wall, I find myself fighting back.

LaBerge: Did you talk with Hawkins later?

Clausen: He wrote me a nice letter afterwards, and we'll have to get together. He's got an African project, and I guess he was impressed with the comments I made on his statements.

[Reference: Begin Tape 35, Side A]

Asked to Extend Term as Chairman of the World Affairs Council

I just agreed to stay longer than the normal term. Usually one is the chairman for two years, but they've asked me to stay another year, so I'll be around until May of 1998 as the chairman, God willing. The next calendar year, 1997, is our fiftieth anniversary and the board thought the learning curve is so steep that it would be difficult for someone to come in and get his or her feet on the ground and lead the way through that special year. So I agreed to stay beyond my normal term, a bit to the chagrin of Helen Higgins.

LaBerge: We talked about that last week because they sent her flowers [laughs].

Clausen: That's right. I told them, I'll only stay on as chairman if Helen is okay with the idea. If it comes to a choice between the World Affairs Council and keeping Helen Higgins (who's also reaching another big zero birthday), the answer is clear: I'm going to keep Helen Higgins. I want to talk to Helen first and see her reaction. I did, and hopefully Helen is happy. I do a lot to try to keep her committed. I told her that after twenty-seven years we're just starting to try to get to know each other. So don't leave me now.

I am not easy to get along with. I know that, and that's my reputation. I bark -- I don't really bite, but I can. Helen takes it in stride. She's an escape valve. Peggy too. I don't yell too much in the office. But I have to let off steam someplace. It helps to have a confidential secretary and a wonderful wife.

[Reference: Begin tape 15, side A]

World Affairs Council Trip to Cuba, 1996, and Views on Cuba-U.S. Tensions

LaBerge: You made a trip to Cuba with some members of the World Affairs Council. Do you have a view on how to dispel the longstanding tensions between Cuba and the United States?

Clausen: The United States has made peace with Vietnam and with other former enemies, but here is a country just ninety miles off our coast and we have not made peace with them and we don't even carry on a dialogue. We

don’t even have a mechanism for dialogue to get resolution of our issues and differences. Talk is important. We've got to keep a dialogue going. Otherwise, how are we going to resolve this? We’ve tried an embargo for thirty-five years or so, an embargo which is only honored by one other country, and which is only hurting the people of Cuba because it's more expensive for them to buy elsewhere than from the United States. But we can't seem to start up that dialogue. Our pride gets in the way of our judgment.

We're still angry because of Cuba’s shooting down the planes the other week that cost four lives, and we're angry for them allowing Soviet missiles to come in back in 1962. They're angry with us because we invaded them at the Bay of Pigs. All that is part of the mix. Why don't we sit down and talk about it? There are some things that we can start cooperating with, and we can do it at the fringes, a little bit at a time. Then over the next several years, maybe we could get to the core issues.

Both sides have smart people. But pride gets in the way of the judgment. One side feels it can't make a move, because he or she insulted me. The other side feels the same way. Who's going to blink first? There were twenty-three of us on the trip and we talked with Ricardo Alarcon, the former ambassador of Cuba to the United Nations and former economic minister for Cuba who’s now the president of what's called the National Assembly. We put the issue to him the same way, expressing our hope that someone would take the initiative and start the dialogue going. Alarcon is an important leader in Cuba and the speculation is that if something happened to Fidel Castro, his successor would either be Alarcon or Fidel's brother, Raúl Castro. So this is a man of force.

Naturally, the U.S. feels that Cuba has never said they were sorry. Cuba, on the other hand, knows it was the big, powerful United States that invaded them and feels it's not their duty to blink first and say they're sorry. They think the United States should apologize first. So there you have it, an impasse, which is really a tragedy.

Cubans also believe that our principal thrust is to overthrow Castro, and I think that's right. The U.S. does have the mentality that we want to overthrow Castro. And there are two very strong anti-Castro Cuban-American communities in the U.S., one concentrated in Miami, and the other in New Jersey, and they are very effective lobbyists in Washington, which further impedes the dialogue.

And now we have the Helms-Burton bill, which tightens the embargo. But embargoes don't work. After thirty-five years of embargo, we should know that. We knew the Helms-Burton bill would pass the Congress, but our belief was that Clinton would veto it, because it should be vetoed. But he signed it into law. Yet the belief of the majority of those of us who visited Cuba was that we shouldn't tighten the embargo. We should loosen it.

LaBerge: The majority of your visitation group felt that way?

Clausen: The overwhelming majority of those who went on this visit believe that dialogue and discussion and involvement is the way to resolve these things. We would have worked towards loosening the embargo and worked toward finding ways to cooperate – like talking to each other about the patrolling of the Caribbean, working with each other on picking up the boat people, and cooperating on other aspects that are at the fringe, but not yet the core. We believe that the way to resolve this is to start a working relationship on issues like these and then develop it into working on the core issues.

We simply need a more enlightened view of how to resolve U.S.-Cuban relations. It's nothing more than pride getting in the way of judgment.

[Reference: End tape 15, side A.]

The Bay Area Council

LaBerge: Do you want to comment on some of the other specific activities you've participated in, like the Bay Area Council and the San Francisco Foundation?

Clausen: I hired Angelo Siracusa.

LaBerge: Who just recently retired, is that right?

Clausen: At the end of the year, yes. I was the chairman of the Bay Area Council at the time I hired him, so I was forty-eight or forty-nine.

LaBerge: You seem to have a way of choosing good people.

Clausen: It's called judging horseflesh. Yes, I have complimented myself on that. I'm a pretty good judge of people. Angelo was originally at the World

Affairs Council and we made him the president of the Bay Area Council. I always said of Angelo, who I think has really done a terrific job as the president of the Bay Area Council, that he's an example of a square peg in a square hole. It's a perfect fit, given his interests and skills and given the needs of the institution that he's been asked to direct. I've also complimented the new president, Sunne McPeak, who is succeeding Angelo. She is terrific. I know her less well, but I know her, and I know she worked with Juli Krevans and the Economic Forum.

The United Way

LaBerge: It seems like you have been involved with the United Way practically straight through your career.

Clausen: A good chunk of my pro bono activity has been in the United Way. I've always said in a very friendly and appreciative way that I'm a United Way freak. I believe that all healthy citizens, corporate and individual, have an obligation to help those who are less advantaged in the community. If you make a better community, corporations can make more money because it's in a better environment. We are all happier and we live better. We ought to do it.

Philosophy Carried Through to the World Bank

I translated that belief into my work on the global scene. It's natural with that philosophy to be concerned about disadvantaged peoples in lesser-developed nations. The mission of the World Bank is to put that concern to work -- to raise the standard of living of the poorest peoples. Its mission is very people-oriented.

I came to learn that 1.3 billion people in the world don't have adequate drinking water. At the World Bank, I became convinced that if I could have only one wish for the world, I would wish potable water for everybody. And it takes money targeted to that goal to make the water flow. It can take tens of millions of dollars in a country where you've got to dig deep wells to get water for a village – say, in Africa, in Pakistan, in Yemen, which is the middle of the desert. So that is what I would want.

The San Francisco Foundation

LaBerge: And what about your work in the San Francisco Foundation?

Clausen: Clark Beise, our former CEO, was also a member of the San Francisco Foundation, specifically working on the distribution committee, and he managed the monies before me. Certain institutions like Stanford University, the University of California, the United Way can nominate representatives, and when the invitation came I was the nominee from the United Way of the Bay Area.

LaBerge: So this was an extension of your work with United Way?

Clausen: It was heavy work, but I enjoyed it. It met monthly for maybe a full day. That doesn't sound like much, but when you're running another big complicated organization such as the Bank of America, it was a bigger chunk of time than I had anticipated when I accepted the invitation of the United Way to serve in their spot on the board.

At the time, the San Francisco Foundation had the Buck Foundation money, which as I recall, generated about $5 million annually into the San Francisco Foundation. Then the oil holdings under-pinning the Buck Foundation were purchased. I want to say the assets were less than $100 million. Then the debate at the San Francisco Foundation began. I was in Washington at the time, and I read quite a bit about it. The Foundation said, "This is not what the Buck grantors intended," and they put a couple of lawyers on it and tried to break the will. Now it is terribly difficult to break a will. I don't think that was the right move, and it got a firestorm of bad publicity. Rather than try to break the will, I, with my legal mind, would have taken the approach of doing an interplead to ask the court what we should do. I would have asked the court, "Does all of this money have to go to Marin or not?" You would have gotten the same judgment from the court, but the public perception of the result would have been far different. The San Francisco Foundation would have not been tarred with being mean and selfish fuddy-duddies trying to break a will, who should have known that was almost impossible. They could have simply taken it to the court and asked, "Tell us what's right, what's fair, what's equitable."

I was much saddened reading about the brouhaha over the Buck funds and all the problems. One of my friends here kept me posted on what was going on and sent me a lot of material. I confess, I didn't read it all [laughter]. I had enough to worry about, such as whether we were going to renew Egypt's request for up to $600 million of borrowing. The issue around doing projects in Marin was interesting, but I had bigger fish to fry.

I am a little critical of the way the San Francisco Foundation handled it. Having heard no side of anybody's story except reading it in the press, I felt that the board or the distribution committee had brought some of the bad views on itself -- they contributed to their own bad publicity. That's probably wrong, but that's what's in my head.

Still, the San Francisco Foundation under Bob Fisher has done a tremendous job. When the Buck monies went to Marin, it was a big chunk out of the San Francisco Foundation's annual funds. But the S.F. Foundation has still done a tremendous job, and it is one of the largest, or it is the second or third-largest community foundation in the country *without* the Buck Foundation, for which I think that Bob Fisher deserves a lot of credit. I don't know him well, but I show up at the annual get-togethers of former members out of fond memories of an activity that I enjoyed but which took quite a lot of time.

[Reference: Interview 4: May 7, 1996. Begin Tape 12, Side A]

The Korea-U.S. Wiseman's Council

LaBerge: Earlier we talked a bit about the Korea-U.S. Wiseman's Council. Even though you're retired from the bank, you're still a member. Please tell me about that.

Clausen: The Korea-U.S. Wiseman's Council was started under [Korean President] Roh Tae Woo for the purpose of moderating the tensions between South Korea and the U.S. So the U.S. citizens who were originally in the group, let's say five years ago, were [Secretary of State] Warren Christopher, [former U.S. National Security Advisor] Zbigniew Brzezinski, [former Secretary of Defense] Frank Carlucci, David Roderick, retired CEO of U.S. Steel (there's a relationship with POSCO, the big steel company in South Korea), Joe Jordan -- that's Amos (Joe) Jordan -- who then was with the Pacific Forum in Hawaii, which was by then a part of Johns Hopkins' Center for Strategic and International Studies, and myself. Those were the six.

Warren Christopher became Secretary of State, so Les Aspin, former Secretary of Defense, replaced him. Les didn't last very long in the Clinton administration, and then he died, I want to say about a year and a half ago.

LaBerge: That sounds about right.

Clausen: And now it's Tom Foley, former Speaker of the U.S. House of Representatives, sitting in that spot. Dave Roderic rolled over. He's still alive, but he decided that he could no longer continue. So it's Jerry Junkins of Texas Instruments, which has a big plant in South Korea. I'm there because Bank of America has had a longtime presence in South Korea, but mostly because of my World Bank background.

We meet once a year in Korea and once a year in the U.S. We decided it would be more useful to the Koreans to meet in the U.S. in late November or early December after the elections because the administration may change, though it doesn't look like it now. So while we met last November in Korea, we're meeting there again in just a few days.

I'll get there Saturday afternoon and be picked up with a helicopter to go to the interior of Korea -- Korea is not a big country; it has a population of 35 million -- to visit one of the members of the Korean side. The Korean members include two former prime ministers, one former head of the central bank, one former minister of economy, and one former minister of finance. P. H. Koo is a member too. He's the retired CEO of Lucky Star, a conglomerate, one of the big, big corporations that do a good many things, including manufacturing automobiles.

LaBerge: What topics do you work on?

Clausen: Today, the tensions on the trade side are minimal. There's no longer an imbalance. So our discussions in the last two and a half years have been more concerned with the threat of North Korea on the nuclear issue and the atom bomb: do they have it or don't they? What can we do? And so forth. We also talk about the economies. We give our views, they give their views, and we've gotten very friendly and close and candid. We've let our hair down. We leave very few chicken tracks -- you can just barely read our prints in the sand. We do craft a minimal protocol statement, which we agree on, and then we informally report to our separate governments as to what we talked about.

The Koreans are interested in continuing the Council. There was a hiatus when Kim Young Sam succeeded president Roh Tae Woo – whose name people mispronounce as "Roh" Tae Woo because R is an N in Korean and it should be pronounced "Noh" Tae Woo. Kim Young Sam was looking at all that Roh Tae Woo created to see if it was worth continuing, and he decided that there was some value to Korea to continue the Council. The U.S. participants agreed that we would continue to meet periodically.

The agenda is kind of controlled by the Koreans but influenced by each one of us. There are no out-of-pocket costs to us so it doesn't cost us anything other than time. The Center for Strategic and International Studies gets a contribution and the U.S. provides the principal secretary, and that's Ralph Cossa of the Pacific Forum in Hawaii. That, in essence, is what the so-called Korea-U.S. Wisemen's Council is all about.

California Business-Higher Education Forum, 1996

Although I was in Los Angeles yesterday, I was up until two o'clock this morning. I got interested in something. At that hour, the phone doesn't ring. I was studying a new piece of research that comes partly out of Berkeley, and I think Richard Atkinson, the new president of the University of California system, gave a speech on it. It was in an article that I wanted to read again. The research proves empirically, not alleges or theorizes, but proves that half the economic growth that the United States has experienced and benefited from over the last twenty or thirty years has come from research. And therefore -- now I'm paraphrasing the message -- that cutting back research monies from the national government, and university research in particular, is going to translate into slower growth in future generations. And we will all feel the impact of that.

That's fascinating and I think very important. I saw Dick Atkinson just this last weekend at the California Business Higher Education Forum in Palm Springs. I still go to those meetings because I'm holding down the chair position on a task force. Rosenberg asked me would I continue to do that on behalf of Bank of America, because I still am active in a good many sectors. You might wonder why Bank of America is involved so deeply in education issues, but it’s a natural affinity. Bank of America is the leading financial institution in California and it makes perfect sense to work with academia and university presidents and chancellors to find ways to stimulate the California economy, to grow jobs, and to maintain our position not only in the United States but globally. California is such a big economic unit that business and higher education need to work together hand-in-glove to get our act together and address our common problems.

Jack Peltason, the former president of the University of California, started the National Business-Higher Education Forum about twenty years ago. Three and a half years ago, the California Business-Higher Education Forum was started. If you take a scissors and cut California off the U.S. map, it's the seventh largest economy in the world. Four years ago, we were suffering. For four years, we were in a recession in California, and over maybe the last twelve to fifteen months, we've started to climb out.

The forum helps us all and Steve Sample, the president of USC and the current president of the Forum, has wanted me to continue.

I talked some more to Dick Atkinson yesterday about this issue, and we had talked last weekend in Palm Springs. By the way, it was 111 degrees in Palm Springs on Friday. When I landed here last night, it was a relatively cool 90 degrees. So I was reading that article again last night, and thinking about where to take it. I'm still mulling that one over.

I was the chair of a Business-Higher Education Forum task force on how higher education and business would like to reform the fiscal side of the state of California in order to boost economic growth and create jobs. We made several fairly aggressive recommendations on that. The cornerstone piece was called the California Constitutional Reform Commission. Governor Pete Wilson took our recommendations, which are only fiscal recommendations. We have other recommendations, like term limits, that are not fiscal.

So I still participate in the Forum and have an interest in it. I'm a co-chairman of that task force for another year now, to try to support the Constitutional Commission, which holds maybe 85 percent of what we were recommending. They were kind of chicken on our recommendation to do away with Proposition 98, which takes a percentage of monies and devotes it to one purpose.

LaBerge: To education.

Clausen: Yes, K through 14. I believe that is wrong in principle, because some other priority could rise up in the coming years that is even more important than education. But then you're locked into the previous priority. It's hard to figure what might become a higher priority, but I think it is wrong in principle to lock a priority into our constitution. The decision on priorities ought to be in the hands of the person that we elect as governor. My belief about this comes from my experience with the World Bank -- when a government commits a percentage of its income to a certain activity, it doesn't work well over a period of time, because priorities change.

LaBerge: So you stay up late when you want to read something about an issue you're interested in.

Clausen: Right. I'm a night person. Peggy goes to bed early and gets up early. But I usually go to bed anywhere from eleven-thirty on and don't get up as early. I got five hours sleep last night, and then next weekend I'll sleep in

all I can. Then we go to Asilomar, where the World Affairs Council of Northern California has its annual conference. As I said, I'm the chairman of that group.

Proposition 209 in 1996

LaBerge: You've had to deal with the affirmative action issue practically since the first day you became CEO. Currently there's a proposition on the California ballot for this November doing away with affirmative action. Do you have a view on that?

Clausen: Well, the governor has said that we ought to do away with affirmative action as we know it, as has Ward Connerly of the Regents of the University of California system. We've had discussions on this issue as recently as earlier this week. But I'm not totally familiar with the ins and outs of the proposition, so let me put that on the record. I've not read the legislation. PG&E is the only major corporation so far that has come out publicly and said they are opposing it. The former CEO of PG&E is on the board of Bank of America: Dick Clark. Dave Coulter is a brand-new director of PG&E, by the way. The California Business Roundtable has discussed the issue and has decided not to take a position on it. They basically said, "We are going to take a neutral position. We're not going to say yes, we're not going to say no. We're not going to say we're in favor of it or have anything to say about it. We are going to avoid the issue." The California Chamber of Commerce has it under discussion and is considering what position it should take. There's some indication that they'll take a stand one way or the other.

Also, Bank of America was to discuss it Monday afternoon at our Public Policy Committee of the board. I don't know the results. I've been talking to you since Monday, so I have not found out whether BankAmerica Corporation or Bank of America NT&SA will take a position. But earlier there was an internal discussion at Bank of America, which I read in the open press, that Bank of America's policy and practice vis-à-vis affirmative action, going forward, would remain relatively unchanged.

It's speculated that the affirmative action ruling of the Board of Regents might have had some influence on [UC Berkeley] Chancellor Chang-Lin Tien's decision [to retire]. Chang-Lin is too much of a statesman to say yes or no on that. Also I've read in the press that the University of California at San Diego, led by its new chancellor -- who replaced Richard Atkinson --, who's now the president of the system, has found a way around the

proposition and is going to continue their program. I don't know what that way is.

LaBerge: You have strong feelings about equal treatment, don't you?

Clausen: I believe one should not discriminate on the basis of race. One should make judgments based on merit. I would say that I have a bias towards having a more level playing field. So I found the Board of Regents' decision a little upsetting. I respect their decision, but I didn't participate in the discussion. I have not discussed it with anybody, so I don't know what the other arguments are. And I know from experience that there are two sides to everything. And there may be *many* sides on that issue. It's not an easy one. In the bank, we've paid a lot of attention to affirmative action. We've increased the number of females in higher positions. We deliberately increased the diversity of our board. And I think we need even more diversity. But we should always get people with varying backgrounds who are the best qualified.

[Reference: Tape 18, Side A]

Sharing Wisdom with Students

LaBerge: You've also been sharing your experience with students, haven't you?

Clausen: I've been giving one lecture a year on stress management to young people in the MBA program at the Haas School in Berkeley. It's William Coblentz' class. I always want to call him Billy because I've known him forever. Bill has asked me the last few years if I want to give a lecture, and I did it earlier this year. I talked about how to deal with issues when a corporation is in distress. I've had experience on that which I think is worth sharing.

[Begin Tape 18, Side B]

Clausen: When Bill asks me, I always say yes to going over and lecturing on how to manage a large corporation -- some would say a humongous corporation, since the bank has ninety-two thousand employees doing 82,000 full-time equivalent jobs, spread across a number of U.S. states and all over the world.

How does one manage all that? I like to think of myself as a manager more than I like to think of myself as a banker. Of course when I have to

fill out forms to go to a foreign country, I say I'm a banker. It's a lot easier than saying I'm a philosophic manager. But I think of myself as a philosophic manager. I told you I was going to have a major in philosophy at Carthage Collegebut the war came along. But I enjoy thinking about those things.

UCSF Capital Campaign

LaBerge: I learned earlier that you'd taken the role of head of the capital campaign for UCSF [University of California at San Francisco].

Clausen: Yes, and one of our goals is to set up a diabetic center at UCSF. We're trying to raise twenty million dollars. I guess they have seven and a half million dollars now with another twelve and a half million to go. It's going to be like the concept of true "one-stop banking" – a place to go for every personal financial need, including automobile insurance, which banks can't offer now. Well, the "one-stop" concept is what a diabetic center is, and there are only a handful of these around the country. USCF wants to create one, and we need to raise some money.

The largest gift given to UCSF came from Herb Boyer who, along with Stanley Cohen of Stanford, developed many techniques of genetic engineering that launched the multibillion-dollar biotechnology industry. Herb is a Ph.D., not a medical doctor.

LaBerge: So he helped start biotechnology?

Clausen: Yes. He joined with Bob Swanson, a venture capitalist, and together they started Genentech, which is based upon crafting new pharmaceuticals. Herb's on my capital campaign team and he has been tremendously generous. He donated income from his patent to UCSF as well as patent income to the department of biochemistry and biophysics to support graduate student education. We counted Herb's contribution through those royalties at $24.5 million dollars. We counted what we actually had gotten in the two previous years and didn't count what we got in the four to seven years before that. I don't know how long the royalties last. Herb said at the time that we're undercounting what was actually collected, that the total is closer to $28 or $29 million that has gone or will be going into the coffers. Herb is terribly generous.

Personal Pledges of the Clausens

LaBerge: I know that you and Peggy have been major contributors to a wide range of community projects, including this UCSF drive.

Clausen: The Clausens pledged two and a half million to this drive and thanks to my exploiting the record stock market, it is now all paid in. I take my obligations very seriously. As of last month, I don't have a single unfilled pledge, including where we pledged a million and a half in January 1995 to the Haas Business School to create the Clausen Center for International Business and Policy. I think the concept of "policy" – business, government, organizational -- is terribly important in sorting out life and providing a path, a fairway if you will, and one should stay with policies as long as they work.

I bought stock which was highly speculative, but which came in. It was called to my attention by a terrific person named Alex Zaffaroni. He would be a good one for you to write about.

LaBerge: Oh, from Alza?

Clausen: Yes, Alza. Symyx is Alex's. Then Affymax. Then Affymetrix. When I came back in 1986 and '87, Peggy and I used to be in the same little wine-tasting group, Chaîne de Rotisserie, which is meat on a spit. The hell with the meat on the spit. We wanted the wines. And we got to know Alex then, and we became friends. Alex called me one day and said, "Tom, you're back with an opportunity to invest in Affymax, and I think it would be good for you." So I did. He called again and we put another $110,000 into his recommendation. Then Affymax was acquired by Glaxo. (I don't recall if they had Wellcome under their belt yet.) Glaxo made a cash offer to Affymax. Affymax was a process by which compounds were analyzed. Instead of analyzing one compound at a time to find out what its attributes were, Affymax had technology to do ten thousand at a time on a chip smaller than the tip of a finger. It takes smarts to do that.

For my few shares, I got about a half a million dollars, which I gave to the University of California when they made the call for the Haas School. I pledged the Affymax stock in January, and the tender offer came in February or March. So within the first sixty days of the pledge, I had about half a million paid in. And as of today, I don't owe anybody for anything. I don't owe Carthage, I don't owe UCSF, I don't owe for all the other stuff that I had pledged. I have traditional obligations because I support the

finer things in life. But I feel wonderful that I don't have a single obligation for the big pledges I've made.

Pressure to Make Community Contributions?

LaBerge: You make significant donations to the arts and charitable causes. I know you do it because you believe in it. Do you feel any pressure to do that?

Clausen: Only in an indirect way. I went to the symphony last Friday. It's a routine now that I'm retired, so we have season tickets for the first time in our lives. We've got eight Friday nights. I can go to six, and that's pretty good.

LaBerge: That is pretty good.

Clausen: So for the two nights that I can't attend, I give the tickets away. When we can go, Helen, our secretary, Peggy, and I go out for dinner before and have a nice evening. We look forward to Friday nights in particular. It's a great night to be out on the town.

But to the point, when I get to the symphony or to another event, I look in the program and I notice the contributors. You know how they list those who give donations and they put them in different gift brackets – maybe $100, $500, $1,000 and so on up to $100,000 or more. You may see the name of your closest friend there and see that he's given $100. You think to yourself, you're twice as rich as he is and, well, maybe you've got to give at least $100. So I notice the list of the contributors. I don't know why I look, but I do.

LaBerge: Everybody does.

Clausen: And I saw that we've been giving $2,500 a year to the symphony. We give to the opera even though I haven't been to an opera in I don't know how long, maybe fifteen years and I've been to two ballets in my life. But as we sat at the symphony, I noticed that the brackets are, say, $1,500 to $3,000, and I've given $2,500, and some of my friends are up here in the $3,000 to $5,000 level. So I turned to Helen and said, "Helen, remind me when we're doing our planning for philanthropy this coming season, I really ought to jump up to the next bracket. It will only cost me $500 to jump up there."

So there is that kind of pressure, but that's okay. I know I don't have to give if I don't want to. But I want to because I believe in the importance of

the arts in the life of the community, and fortunately I'm in a position to help support that.

Peggy's Illness

LaBerge: At this point in your life, Peggy's illness with Alzheimer's must make things difficult for you.

Clausen: I know it is progressive and at the moment her memory is stronger on what happened in the past than it is on what happened yesterday. For example, we've been playing bridge with the same group of ladies for years. Peggy is a good bridge player and I want her to keep that up. Two of the ladies are wives of doctors and one is the wife of an attorney, and they are all neighbors in Hillsborough. They put their bets into a common pot, and then once a year the ladies invite the husbands to go out for dinner. The dinner is this Saturday night, and on Monday they brought the money over to count it and left it with Peggy. They shouldn't have, because they all know that Peggy has difficulties remembering. This morning at breakfast Peggy said, "What did you do with the bridge club's money?" I said, "Nothing." "Well, you put it away someplace." "No, I didn't put it away. That's what you do." But she had no recollection of putting the money someplace. Today just before lunch, Peggy called Helen to say, "Tell Tom I found the money."

So we're always looking for things now. Peggy had a beautiful gold collar that we had bought in Greece. We had seen one years ago in Mexico City when we were having dinner with Merle Oberon, the actress, and she had one on. Later we saw one in Greece and we bought it, and Peggy loves it. But it was lost for a year and a half because Peggy hid it and then couldn't remember where. I feel this is a big adjustment for Peggy. I think it is difficult when you are kind of aware that you cannot remember.

I have that problem too, because my mind strays and I lose track of a thought. I now have to have little notes, bullet points, on one piece of paper to drag me back if I get sidetracked.

On Being a Diabetic

LaBerge: On a personal note, you've had to deal with being a diabetic and you still deal with that today. Has being a diabetic impeded your accomplishments in any way?

Clausen: It's now twenty-eight years later from when I was first diagnosed, and I'm still alive and I've continued to have pressure jobs, even though I was told to avoid them. I've had that pressure first with Bank of America and then I had the pressure of heading the World Bank -- and that position is really one of "damned-if-you-do-and-damned-if-you-don't." And then I had the enormous pressure of coming back to take over the Bank of America when it was sinking and leading the work to stop the sinking and right the boat. Historians have said that was really one of the fastest turnarounds of a major corporation that's ever been done. So I guess that being a diabetic hasn't slowed me down too much.

A Trip to Prague in 1996 and Other Travels

LaBerge: If I had a life like yours, I'd take my vacations at home in bed! But you're planning a trip to Czechoslovakia, aren't you?

Clausen: Even people with nothing to do go on vacation. We're going to take a cruise up the Danube and see that part of the world with neighbor friends from Hillsborough. We're going to start in Nuremberg and end up in Budapest, spending a day in Vienna on the way. I've got tickets to see *Rigoletto*. Did I tell you this?

LaBerge: No. You told me about the Danube, but you didn't tell me about *Rigoletto*.

Clausen: We're going to see it at the Vienna Opera House. I think there are two great opera houses in Europe: La Scala in Milan, and the Vienna Opera House. No one would disagree with La Scala, but some might disagree with Vienna. But I've got twelve tickets. There are six couples going -- three medical doctors, one lawyer, one owner of an insurance agency, and one unemployed retired banker. The wives are close. They're really the nucleus of the wives' bridge group that's been playing together for decades. It will be relaxing and unwinding for them, although I'm gone so much between now and when we take off, that I know I won't be caught up. But I'll try not to have that bother me.

First I have to fly to Korea. Then I leave there at five or six on Monday afternoon and get back here at noon the same day. Then on Tuesday morning I go to Washington for a week. Then I come back for a few days and then I go to Japan. I can't do Korea and Japan the same trip, so I have to make two big trips across the Pacific. I go to Washington for our annual meeting of the Committee for Economic Development, where I'm vice chairman. The trip to Japan is to attend a two-day conference of CED's

counterpart organization there. Then I can start thinking about this cruise up the Danube.

After our time in Vienna, we're going to fly to Prague for three days, because only two of the twelve have been in Prague before. I have, but Peggy never has, as she wasn't with me. Prague is a beautiful, beautiful city. It was relatively untouched by bombing during World War II, maybe one percent on the fringes. Nothing was really damaged or bombed or destroyed in the beautiful downtown section of Prague.

I've been in touch with Gabe Eichler, who used to be the chief international economist here in Bank of America. He is a Slovakian who now lives in Prague. He was born in Bratislava, which is on the Slovakia side now that the Czech Republic is separated. Gabe is a delightful fellow, and smart as a whip. I suggested to Gabe that there'd be twelve of us there and it would be great if he could get us dinner reservations in an old-time Czech restaurant, probably private. I know the brother of Vaclav Havel, Ivan. I know the president, too, but not very well. I had dinner with Ivan, who was on the Berkeley campus during the Mario Savio freedom of speech movement. Gabe was going to invite Ivan and his wife, and I hoped that Gabe and his girlfriend could come. They could tell the group a little bit about Czechoslovakia under the Soviet rule, and the Havel brothers, who led the revolution to overturn the government and establish themselves, and then the split between the Czech Republic and Slovakia. It would be an evening filled with a bit of history along with some wine and fun and we could all get a real feel for the old city of Prague.

I'm not managing this thing, but I am contributing ideas for the group. So that will be kind of a catharsis to do all this stuff, a real change of pace for me. I don't take normal vacations. A vacation to me is not doing nothing. It's doing something different so you're not bored with life. I don't live a boring life.

LaBerge: That's for sure.

IX. Bank of America Succession and Final Reflections

Coulter Development and Succession

LaBerge: Let's talk about the process for selecting a new CEO at Bank of America. Do you always try to select from within?

Clausen: We try. I admire Dick Rosenberg for his beliefs on succession. About three years ago, some of the directors discussed CEO succession at an executive session of the board. The idea was raised that if we don't have anybody strong enough to succeed Rosenberg, we ought to go outside now and bring someone in for a couple of years, have him or her work for Rosenberg and then promote that person to CEO. But Rosenberg felt very strongly that we should promote from within. He felt that people do rise to the challenge, even though at the beginning you don't perceive how in the hell they can fill somebody's shoes. That approach was also part of the Bank of America tradition.

I went through that. The bank was quite complex back in 1969 when Rudy Peterson selected me, but it was a smaller and simpler bank for a CEO to manage relative to today's criteria and requirements. Today, it is far more complex by several factors than when I became the CEO in 1970. And it will always be thus.

Rosenberg stuck to his guns about promoting from within. I suppose I gave him some silent support, as I don't think I ever told him, "You're right. We ought to promote from within." At the time, we could see some young people rising. Back then, Coulter was among them, one of the top six or seven officers.

[Reference: End of Tape 17, Side A. Begin Tape 17, Side B]

LaBerge: So how did the board of directors focus in on Dave Coulter?

Clausen: We would hold executive sessions of the board. The only Bank of America people present would be Dick Rosenberg and retired CEOs Rudy and me. Dick would go through the top ten or twelve senior officers and give his appraisal of each one. Then during the course of a year, the board would invite key senior officers into their sessions to give a report and take part in a question and answer session. So they got a chance to see and hear these bank officers. They may have been reporting on the National Bank Examination or how we control our liquidity or the activity of their

department. So we also educated the board through this process. This way, the board also gets to know the personality of a person and gauge how that person performs in front of a board. I told you that I was given that exposure several times early on, and apparently they thought I did a good job. Dick had that exposure and he also did a good job. Coulter conducted himself very well. To start with, Coulter looks very smart and the board knew that he had a knack for rising to the challenge. Somebody said that about me too, as I was climbing up.

Years ago, when Dick was still in management he told the board, "Every assignment that we have given to Coulter has been over his head, but he has always risen to the occasion. We always expected perfection, but nevertheless Dave has done the job better than we had a right to expect. He did that in both staff and line positions. He did it working in treasury, crunching numbers, advising, but not making bottom-line decisions. And he did it when making bottom-line decisions first heading corporate banking in the U.S. and then heading the World Banking Division." Lew Coleman had the spotlight at the time because he was the chief financial officer and he met with the bank's analysts. He was well known and liked by them, and they had him elected as the next CEO. Dave Coulter was out of their notice, off scene. But Dave's performance was noticed, as when he acquired Continental, and it was nothing but the best.

Influence in Coulter's Selection?

LaBerge: I've heard it speculated that you had some influence in getting Dave Coulter selected as the next CEO. Is that true? If you're willing to talk about that, I think it should be covered.

Clausen: I think it's relevant, though we might want to put an embargo on it. At my luncheon today, Myron Du Bain [CEO of Fireman's Fund], whom I've known and loved forever, said he had never met Dave Coulter. He knew Coleman well, and he was surprised, I would even say a bit shocked, that the board picked Coulter. He wondered if I had anything to do with it. I said, "Not me, Myron. I didn't have a vote."

LaBerge: Because you're an honorary director…

Clausen: I'm honorary, so I don't have a vote. But I have a voice. For the record, all I did was to call the chair of the search committee and ask to have lunch with him. I talked with him about the selection process, which I thought was going on too long. I do know that directors have to be extremely diligent in their selection of a CEO. I've said there are maybe four key

jobs in a bank that have to be as pure as the wind-driven snow. Those are the CEO, the head of Personnel, the head of the Legal Department, and the Controller. And if you've got people who take shortcuts in any of those jobs -- they're playing golf, taking too much time off, extending their vacations, travel, expense accounts, all of that -- then you increase the chances that the discipline of the organization disappears.

When I left to go to the World Bank, Bank of America had budgets, profitability, and an expense-revenue ratio that was one of the best in the country -- 59 percent. It's better than that now -- but when I came back six years later, everyone was spilling over their budget and no one was paying much attention to it. We were not following our affiliates and we were just generally managing in a sloppy way. The discipline had disappeared.

By the same token, we gave a six-figure grant to one of the political parties when they had a convention in San Francisco. The Republicans had not had a convention here for a very long time, so that would be Democrats. But the board didn't know that we gave a couple hundred thousand bucks to a political party, and how it was given. They should have known up front and been consulted. So going back to the point, it's absolutely essential that in leading a bank, the right standards are set and observed and evidenced.

LaBerge: So did you lobby for one candidate over another?

Clausen: I can honestly say that I did not lobby for one or the other directly. I did it indirectly. I agree that Coleman is a good man, but Dave Coulter is a hell of a good man. Here's a guy who is still growing. They're both growing. They're both young. Coulter is forty-eight, and Coleman is fifty-two and had more experience, which would be a great start for the first few years. But we're not running the bank for just the next few years. We have to pick somebody who will take us into the next century. You can't change CEOs that often. We have to pick for the long run.

As I mentioned, I did have a private meeting with the chair of the search committee, Phil Hawley. I went to Los Angeles and asked Phil if he would have lunch with me. I asked him about the process: “How's it going? What are you guys thinking about? What's your methodology? Can I help? All I want is to do what’s best for the corporation.” This was in late March of 1995.

Honorary Directors on the Board but Don't Vote

LaBerge: So you're a part of the board, but you don't have a vote?

Clausen: No, I don't. I am an honorary director, not a director emeritus. Rudy Peterson and I both have that status. We sit with the board, we can discuss, we can talk, we can argue – well, we don't argue, because we don't operate that way. If I have a disagreement I'll go behind the scenes, and I'll call up a board member and ask him to lunch and scold him privately. I won't do it at the board. A couple of times I scolded the board over the issue of succession. There are no minutes of this because it took place in executive session, when just the outside directors met. The inside directors were excluded from the discussion. Since Rudy and I are honorary directors and not part of the daily management of the bank, we are not considered insiders and therefore we can attend the meetings when the board convenes in executive session.

At one of those meetings I was very disappointed in seeing cliques being formed among the directors about who they wanted to choose as CEO. That's rather bad. So we got a search committee of six directors. Five good directors and one not so good, though I'm not going to tell you names on that. One who I call a little bit of a troublemaker, and that's all I should say about that.

A Word About Directors

Clausen: One of the good directors added to the search committee was Don Guinn. Don Guinn was a very strong director; I have a lot of respect for him. He was the former CEO of Pacific Telesis – earlier called PacBell -- and a director of Security Pacific. He is one of the fifteen or sixteen directors of Security Pacific that we incorporated into our own board after the merger with Security. So we have a big board. A national bank can only have twenty-five directors, so we decided to have twenty-five full directors and classify some others as advisory directors. Guinn was one of the twenty-five. Before the merger, Bank of America had fifteen directors and Security Pacific had I want to say twenty-five directors, so they picked fifteen who would be directors of the new company. To make it equitable, we agreed to have the same amount and the ten extra board members would become advisory directors. That was also akin to saying farewell to many of them as they didn't want to be advisory directors, and over a couple of years they gradually resigned as advisory directors.

The truth of the merger was that Bank of America National Trust and Savings Association acquired Security Pacific National Trust and Savings Association. In that situation you can't ask directors on the Bank of America side to become advisory directors, so the five advisory directors had to be Security Pacific guys.

Don Guinn was always included in the inner circle. He is a very strong director. He contributes a lot. When he speaks, everyone wants to listen. He's that kind of person. Some people want to speak, and maybe they have a loud voice, but sometimes they're off in what they say. Don Guinn is never off. He commands and demands and deserves full attention always. I think very highly of him.

We had a lot of strong directors from Security Pacific. Some of our strongest directors at BankAmerica Corporation today come from Security Pacific. Why in the hell did they let management do the crazy things they did? It's maybe an unfair question, but that question does come to mind. It was probably because they didn't know what was going on, though Security Pacific directors wouldn't admit that. But I believe the briefings and materials that Bank of America management provides its directors are superior to what Security directors received. We keep our board of directors far better informed than Security Pacific did with its directors. I think that's partly why they got into trouble. They were on the regulators' watch list, but when the regulators "gigged" them, they didn't act. [A "gig" is a military term meaning a "violation." Dust on a windowsill during a room inspection is a gig.]

LaBerge: I've noted that you're very sensitive to how specific words impact people. Tell me more about why you called the acquisition of Security Pacific a "merger."

Clausen: I did not "acquire" my spouse; we merged. We married. If you have an invitation to join hands with another institution and you go back to the board and say, "Bank of America wants to acquire us" -- wow, that's a negative emotive word right there. But if you go to your board at Security Pacific and report, "Bank of America would like to merge with us." Merger. That's different. You can have a couple hours of discussion informally over a beer or whatever and make a decision two weeks later or whenever. That keeps everybody on our team. There's a psychology around words that you use in merger, negotiation, and arbitration. And one should never use negative emotive words.

LaBerge: Right, we've talked about that.

Clausen: As I've said, the classic example for me is the difference between the terms "lending limits" and "lending authority." It sounds far better for me to say to my family that I have lending authority up to $25,000 or up to $250,000 or whatever it is, than to say I have a lending limit that I can't go over. That's a negative. I scrubbed that at the bank. That's a minor little thing, but it's important. I remember those things from my two years of psychology at college in 1940 and 1941.

LaBerge: That idea extends through every part of life, too.

Clausen: You bet. It extends into your relationship with your children or your relationship with your spouse or neighbors. It's part of human relations.

No Vote on the Board, but Influence

LaBerge: Back to the board and the process to select the next CEO. So you don't have a vote on the board, but you have influence because you have a voice. Is that what I'm hearing?

Clausen: I want to say this with modesty, in fact, with pride -- the board listens when I talk.

LaBerge: I'm sure they do.

Clausen: I'm very proud of that. I don't talk very much. But I'm a corporate man who is concerned about doing what is best for the bank. And when I feel that the board is getting off track, then I feel obligated to speak up. It's bad and wrong if the board strays off course, loses its objectivity, or is not focusing on the real problem. If they're talking about stuff over there when they really ought to be centered on this over here, then I try to diplomatically point that out. Well, I'll do it undiplomatically if I have to. And I think the board respects that, and they listen to me.

All through my corporate and public career, particularly at Bank of America, my colleagues respected me for that. Early in my life, I made it a personal rule to never engage in anything unless I'm well prepared. So I spent a lot of hours burning the midnight oil to make sure that I thought through all sides of an issue. I still do that today. When I was climbing the ladder, I would bring something to a senior group -- a tough, complicated loan, for example. I cannot remember a single time in all my experience taking loans and credits to loan committees in Los Angeles, the headquarters where I learned the business, or up here where I was really

the chairman of the General Finance Committee, that that approach didn't make a big difference and gain respect.

LaBerge: Some press articles speculated that the board picked Dave Coulter purely because of your influence.

Clausen: Yes, and I dislike that very much. I read in *Institutional Investor* where it said, "No wonder Coulter was picked -- most of the directors were put there by Clausen." So in essence the meaning was "Clausen owns them. They owe Clausen, and since Clausen favored Coulter, therefore Coleman was out." I don't like that. I try to play it fair and square.

Bringing the Selection Process to a Conclusion

At the time I talked to the head of the selection committee, rumors were floating around about who would lead the bank, and I thought it was time to bring the process to a conclusion. I did talk with Rosenberg once. He came down here and sat at my desk and visited for about an hour before the selection process was completed. And I couldn't swear on a stack of bibles that I didn't have some influence on the CEO job going to Coulter. It's hard to say whether I did or didn't. I might have played a little bit of politics behind the scenes, first with Dick, then with a couple of directors, maybe even doing a little coaching of Dave himself. A lot of maybes. I don't know.

Dave Coulter as Mr. Clausen's Administrative Assistant

LaBerge: You told me before that Mr. Coulter was one of the best administrative assistants you've had.

Clausen: I guess I've had close to a dozen administrative assistants. About every year and a half I would rotate someone new into the position to give him or her the exposure. On any given day, I might say, "Analyze this…" "Give me an outline of the speech I've got to give tomorrow…" "I don't have time to do this. You do it..." "Here's one of my good friends who wants to buy a house. Why don't you take care of her and send her to the right place?" All that sort of thing.

Dave was bright and a clear thinker. We'd talk about *how* to give an important speech -- the issues I should talk about. We'd decide on a framework for it and put it on a tape and give it to the Communications Department speechwriter who would participate. Perhaps Ron Rhody himself wrote it. He was the head of that group and he was damn good.

Dave would also participate with the speechwriter in conceptualizing the speech and have a tape recorder going. Then he used to give me an outline of the speech after it was written.

Another reason I was pleased about the selection of Coulter is that he has some historical memory of what's gone on in Bank of America. He was here when we were suffering under Sam Armacost and Lee Prussia in the tough days of the early eighties. We've had so many changes and additions to our leadership team that we're still suffering from the loss of historical memory. Dave's selection gives us some continuity.

The Board Refines its Plan

LaBerge: When the board made the announcement about their choice of Dave Coulter, didn't they later announce some refinements of their plan?

Clausen: The board made their choice at their meeting on the first Monday in August 1995, when they promoted Coulter to become the president and CEO effective January first, with Rosenberg continuing as chairman. The board made two mistakes in the plan we crafted and announced. One was that we forgot to put a finish on the continuation of Rosenberg as chairman. It should have been, "Chairman until the shareholders' meeting," at which time Coulter would become the chairman as well. We didn't say that -- it's open-ended. That makes it fuzzy, and therefore it was an imperfect action. And they also forgot to make Dave a director in August, so we did that through a special meeting by phone and then announced that when Dave became president and CEO he would be on the board of directors, as well. One might ask, "How can you guys be so stupid as to not address that in the first place?" Well, it's not stupidity; it's an oversight. There were just a lot of things on everybody's mind.

The Coulter-Coleman Option

LaBerge: Can you speak to why Dave Coulter was chosen over Lew Coleman?

Clausen: You know, this is a long story -- and that's one of the reasons why Coulter was picked. It's the shadow of what I haven't said that looks damning. Lew Coleman was and is an outstanding professional. There are times when he would maybe take a shortcut here and there -- small little things. Out of a scale of 100, one-hundredth of 1 percent -- tiny, tiny little things. He had a tendency to want to tell more than what he knew about the subject being inquired. He could not say, "I don't know, but I'll find the answer for you and I'll call you tomorrow, or this afternoon if you need it faster." He

could not do that. And the board eventually caught that. No, I did not help them focus on that at all. In the parlance, Lew would try to snow his way through. Coulter would say, “I don’t know, but I’ll have the answer for you in a couple of days and I’ll call you,” rather than just shovel. I tried to coach Coleman a little bit one-on-one over a number of years. “Lew, why don’t you say you don’t know and then look it up and then give the facts rather than try to put on the appearance that you know everything about whatever issue is thrown on the table by the bank analysts?” Rosenberg counseled Coleman on that. When I went way back with those who knew him a long time, they say that’s been a constant criticism. It dated back to at least his Wells Fargo days, then during my second administration as CEO when Coleman was a senior officer with us. Rosenberg too had the same criticism of Coleman. Those that knew Coleman for a very long time, others like Glenhall Taylor, said that Lew has one common flaw, and that was that he wants to tell more than he really knows about a subject. It's an ego-driven thing. He wants to look better, to be thought of as having all the answers, to come across as more sure, or whatever.

That's not a good characteristic for a CEO to have, particularly in these days. Rudy and I have commented a little bit on how we're lucky not to be a CEO in these times, because things are moving so fast and they're so complex and complicated. Not that we couldn't understand them, but the challenge now is even greater. However, we're off to the side now, out of the milieu. We don't have the discussions and we don't get other inputs. Now we do indeed contemplate our own navels, or at least each other's navels. We talk up here, but we are not in the mainstream. We are the beneficiaries of having done something yesterday for which the bank and the board are appreciative. As I now have nothing to do and I need a place to do my nothingness, the board provides me and the others a place for us to do our nothingness, and that’s the wonderful environment on this floor.

I want to say that Coleman and Coulter are both wonderful people. They are great strong people. If you were looking only for a leader for the next two or three years, then you'd pick Coleman, because he's more experienced than Coulter. But Coulter being younger by some five years is someone who can carry us well into the next century. So you consider picking the younger person. Coulter is coming along on the fastest track possible. He's absorbing everything. Having said all that, it was the board's decision. And they took too long -- eighteen months -- to make up their minds.

Talking with Dave Coulter After His Selection

In August, Coulter came down to see me. I still remember that moment as we were standing right in back of this chair. He said, “What's happening? I'm so young!” I asked, “How old are you?” He said, “Forty-eight.” I asked him, “What's taken you so long, Dave? I was forty-six!” [laughter]

Views on Coulter’s Performance as CEO

LaBerge: Now that Dave has been CEO for a while, how do you feel about his selection?

Clausen: We had very good management under Dick Rosenberg, who was a great motivator and set a high standard. It’s too early to tell, but there are high expectations of Dave, and so far he’s disappointed nobody. If there were any reservations in any of the directors’ minds about whether they made the right decision in choosing Coulter to be the successor to Dick Rosenberg—that’s long gone. In my view -- and admittedly I’m terribly biased -- I’m high on Coulter and I always have been -- Dave is doing a terrific job. I hope that’s not too much of my bias.

Wall Street Analysts’ Views

Analyst recommendations are now being distributed to the directors before the board meeting so they get a feel for how the analysts are looking at us. We just heard on Monday that out of twenty-five analysts, nineteen of them are recommending that Bank of America is a buy or an out-perform buy. A couple are neutral. One, I guess, is “sell.” Most of them are positive because they see that we've got management that will focus on shareholder value. Value to the shareholders is the primary thrust to the new management, which is great. Coulter is doing just a terrific job. I'm so proud of him. The chicken tracks that he has been laying down since becoming the president, particularly since January when he became CEO -- if anybody had any doubts about what he could do, they’re being erased now.

May I say one thing? There was a great deal of public attention on who might be Rosenberg’s successor. Wall Street bank analysts had voted Coleman in and Coulter wasn't even getting a mention. So it took a fantastic amount of courage for Rosenberg to fly in the face of that, to pick someone who in *his* judgment would do the best job.

[Reference: End of Tape 26, Side B.]

Driving with Dave Coulter

Dave and I don't talk very much, just whenever we can. I don't want to monopolize his time. I'm very fond of him and very proud, and I take some personal pride with him in the good things he does. I did spend several hours with him in recent weeks. I drove him to the Bohemian Grove. I drove slowly and took a bit more time. Then we drove Rudy back. The three of us talked on the way to Piedmont where Rudy lives and then dropped Dave off, so I've had maybe four and a half or five hours of discussion with Dave on a lot of things. I don't like to waste my time or his, so I have a little mental agenda of the points I need to cover with him.

Reference: Begin Tape 27, Side A]

Primary Responsibility of a CEO

LaBerge: You brought up a couple of things that I'd like to talk about. One was that Mr. Coulter's thrust is to do the best for the shareholders.

Clausen: To give value.

LaBerge: To give value to the shareholders.

Clausen: That's what he's concerned with. That's his mission. That's his focus.

LaBerge: In general, to whom and to what does a CEO owe loyalty? To the customer or to the shareholder or to your employees?

Clausen: Yes.

LaBerge: "Yes?" [laughter].

Clausen: They're not mutually exclusive at all. The CEO owes loyalty to all those constituencies, plus the general public. Dave Coulter as the CEO, and the senior management of this bank, have to be concerned with all of those. And with the regulators who, by the way, are not the enemy. I told you that when I came back, Bank of America was fighting the regulators. But my view was that the regulators were not trying to get our little headache to become a migraine. They were not working against us. They wanted to help us cure it. When I came back, I felt it was very important to change our management's attitude toward the regulators. I came back October 12, and the first board meeting was November 3. Three days later, November

6, I was in Washington talking to the regulators, hearing that we were fighting them tooth and nail, slugging it out. The Comptroller of the Currency was telling us this had become Bank of America's reputation. It probably surprised them that now suddenly we were very cooperative. But I told them that we had new management. In truth, I've always been cooperative. I believe you get more by cooperating than you do by fighting. I told the regulators, “Besides, you guys are so tough, we'll never win a battle fighting you. If you're wrong, we're going to argue, but argue in good faith and not fight when we know we're dead in the water.”

LaBerge: So you have a loyalty to all of those constituents. But do different people take a different thrust?

Clausen: Let me talk a moment about the interrelationship. We had 90,000-plus human beings on a full-time equivalent basis and I as the CEO knew I was going to have to reduce that down to about 80,000. Yet I wanted everybody to do his or her bit to propel the boat in the same direction. Not just to continue what they’d been doing, but to do more and better. To achieve that buy-in takes communication from on top. And the most powerful communication is to lead and set the example. But also you need other managers and opinion leaders in the company to go down the fat part of the pyramid and get the communication and commitment flowing back up. And if you get everybody in sync, boy, that boat can really move. But in what direction do you go? Where do you put the emphasis? Well, we're nothing without the customers. So this brings us to another constituent. Customers will be served, and if we don't serve them, somebody else will. So it's not a choice; we've got to serve the customer – to satisfy and please him or her. Not that we're going to do everything the customer wants, because sometimes the customer wants what we can't deliver or shouldn't deliver. You can learn to say no to a customer in a good way that keeps the relationship. And you can even help them find somebody else to serve them.

As an aside, I just had a case I dealt with Monday morning. An old friend of mine was desperate. Security Pacific was involved and Bank of America inherited his account, but he was ready to jump off the bridge. The bank was right about what should be done, but it was not being handled and communicated well. Hopefully we set the bank in the right direction and set *him* in the right direction. This was an example of where someone said no in a way that the person so resented it, he wanted to pound a hole in the wall while he leaves. But there is always the opportunity to say no in an understanding way, and the customer is more likely to understand it because he or she is an intelligent person.

So if we take good care of our customers and charge reasonable fees, we earn income. And if we manage our business well, we can provide a good return to our shareholders. And that brings us to our other major constituent, the shareholder. All of these constituents are linked and deserve the CEO's time and attention. You can state the interrelationship this way -- it takes competent, motivated employees delivering excellent service to customers who are willing to pay enough for that service to produce the surplus income that can be returned to shareholders as dividends and helps increase their stock's value. There's the interrelationship.

Contributions of CEOs at BankAmerica

LaBerge: You have a unique perspective from which to offer views on the contributions that different CEOs have made to Bank of America. Will you take a moment and do that?

Clausen: Historians will say that A.P. Giannini was a visionary. He was an enthusiastic Italian who could really motivate people and get people to follow. He was outstanding. Bank of America is his creation, First Interstate is his, and Transamerica is his. Along with Morgan, Rockefeller, Ford, Edison, Carnegie -- all those great names – A.P. Giannini belongs in the Hall of Fame. Yes, he was a bit of a promoter and an outsider, and therefore the peer group in the financial community in the United States looked at Giannini kind of as a country bumpkin. Armand Hammer of Occidental was also a promoter and did a terrific job in building Occidental. He was a terrific person, as well, but he never became a member of the Business Council because he wasn't invited. Still Armand Hammer deserves a place in history, but not like Giannini. A.P. Giannini cut through all that because he was such a powerful personality and for other reasons too. Giannini had the courage to bring banking service to the common man. He put capital in the hands of working people for the first time. Before he started Bank of Italy, if you needed a loan you didn't go to a bank. Why? Because you would be turned down -- unless you didn't really need the loan and proved you didn't need it, that you were a Rockefeller. You went to a finance company or you went to a pawnshop. Giannini created a bank to take care of the little man. "Little man" is a code word inside the bank. We still talk about it. Today we're not only for the little man; we're for the big man, too. Retail, but also wholesale. But retail is our strength, and hopefully it always will be. A.P. Giannini built our bank on that foundation. He was terrific. There is no question about it.

L.M. [Lawrence Mario] Giannini was A.P.'s son. I didn't know him, but they say he was bright and smart. He was a great complement to his father because he could help take A.P.'s visionary ideas and make them operational in the bank. That produced all kinds of new products and services for the public. As I recall the history, L.M. was a hemophiliac and was ill some of the time.

Carl Wente came next. He was a caretaker for a couple of years. Then came Clark Beise. And Beise is the unsung hero, the most underrated CEO in the bank's history. He was very quiet, kind of unnoticed, but a very strong leader during his eight plus years. He had great vision, too, and it manifested in operational improvements and new products. He was a man who was respected. He gave us credibility so that the big boys on Wall Street could look at Bank of America with respect the way that the big banks in the financial community looked with envy and resentment at Bank of America under Giannini. Beise gave us respectability.

Clark Beise had the courage to invest in creating the revolutionary bank processing equipment that was known as the Electronic Recording Method of Accounting – or ERMA for short -- out of which came the invention of micro-encoding using magnetic ink to allow machines to process checks instead of humans. Today 99.99 percent of all the checks written in the whole world on planet Earth use that system devised under Beise's watch. Clark Beise also had the courage to introduce the first nationally accepted bank credit card. But that was not an easy road. It accumulated losses of about $16 or $17 million, which was a big loss back in the fifties, mind you, before it started to turn the corner in three or four years. But then the card earned it back in short order. Credit cards, in turn, helped society become less dependent on checks and cash. It paved the way for the debit card. We're experimenting now with cards that have value stored on them. Let's say each card has five dollars stored on it. After you spend five dollars you can't get another ten cents out of that card; the card is done, electronically. The money disappears off the card. That was unthinkable ten years ago. So not only the bank credit card but also the debit card -- all came out of Beise's watch.

Beise was followed by Rudy Peterson. Beise was not a good traveler. And under Beise's watch we were only modestly international. But Rudy gave us the big international push, with overseas branches and global exposure -- so much so that he made the cover of *Time* magazine, which is not easy to come by, particularly if you do good. If you kill somebody or many hundreds of people, then you can make the cover. But Rudy did it by being good. And that's his heritage for the bank.

LaBerge: What about yourself?

Clausen: I can't assess myself well. Robert Burns once wrote about the rare gift to see ourselves as others see us. That's not easy for me. I will say I'm not an intellect. I have to work hard and spend more time to do a job right. Years ago I read a book that influenced my life. It was called *The Corporate Man.* I'm the corporate man. I'll make personal sacrifices for the corporation. And if I have a role in leadership in the corporation, and the corporation does well, I'm going to stand higher. I'm going to get my recognition that way.

I guess my contribution is that I've made the bank think about profit. I told you how, in the early seventies, I would go to the branch and ask, "How are you doing?" The response would be, "Well, we've got so many deposits, we've got so many loans." But they would never say, "We made a million and a half bucks last year," or "Our bottom line went up." The bottom line was nonexistent. They not only didn't talk about it, they didn't have the tools to talk about it. So I made a thing about profit. I used to bring in a group of managers, twelve or fifteen at a time. They'd go upstairs and have lunch, and they had the chance to get to know me and for me to get to know them and do a little sermonizing. I'd try to get them focused on booking not just *any* business, but good, profitable business. I'd tell them, "You see a rabbit go by the front of the door, you reach out, hit him over the head and drag him in and book him. But what if the rabbit has a gimpy leg or he can't hear out of one of his ears? We want good, four-legged rabbits. Before we go after new business, we should ask ourselves, is it worth booking? Are we going to get our fair return?" I made us profit-oriented. When we had to retrench in the mid 1980s, I would say I closed down most of the branches in the Caribbean that Rudy started, the little retail mom-and-pop branches. They were retail and nice to have, but expensive to operate. There was not much profit there. I believed it was far better to focus on where we could earn the greatest return.

I had a real lesson in focusing when I came back and had to get rid of some profitable stuff. I told you we had to sell Banca d'America e d'Italia, because it took $4 billion off our balance sheet. We had to get us a decent capital ratio, so I reduced the balance sheet by $9.6 billion in the first seventy-eight days after I came back. I think I've told you that story. Getting the bank refocused and back on track to sustainable profitability – that was my contribution the second time around.

Dick Rosenberg will go down in history, I think, for doing several things: really revving up the enterprise and getting us back in the business of retail, which used to be our strength. We had lost our dominant market share position, and we had lost our leadership in the retail side in California in the early eighties. And Dick put us back in business. Dick had great energy and vision. Let me pause on vision. A.P. Giannini had the greatest vision, but I think that of all the CEOs we've had *since* A.P., I would put Rosenberg's vision on top. Rosenberg had a vision of markets and how we needed to increase our market share and how to go after it. He is an advertising and marketing genius. He did advertising at Wells Fargo and retail banking at Crocker, and then he fixed retail at Bank of America. So he is one of the best if not *the* best retail banker in the country. Plus he had the vision to see what Security Pacific would bring to the company and he negotiated that deal. He has gotten some criticism because we lost per-share profit out of that. Some of the analysts are still saying he paid too much. Parentheses: If you're making a strategic acquisition, price becomes less important. Parentheses closed. The most horrible sound in the world is the sound of a potential home-run ball as it hits the catcher's mitt, and you have not swung at it. That's unforgivable. Dick will not be caught doing that. So to bring Security Pacific to Bank of America -- sure, it was expensive; sure, it hurt earnings for three or four years. But now it's getting back, and over the next fifty years, a few years' problems that we suffered on per-share earnings will not have mattered very much in light of what the deal contributed.

So Dick had the courage to sacrifice a little bit on immediate earnings by taking steps to invest in the future where the returns would come for years after he was retired. I give him a lot of credit. And then of course there's the Continental merger. The Security Pacific "merger" was really an acquisition because they were bleeding badly. But we did acquire Continental, which went smoothly. Even though Dave Coulter was responsible for implementing it, it went just terrifically [chuckle]. And the bank forgave him and named him to be the next CEO.

That's as I see the history of CEOs in Bank of America. And I am not ashamed to say that I think that Coulter has the potential to be the best of the lot. Clearly that's my wish for him. No, I did not pull strings for him to become the CEO.

Rating System for Homes and CEOs

LaBerge: You just had a few conversations with people.

Clausen: Here and there, yes. I developed my own rating system, which was kind of on the back of an envelope. I jotted down things that are important -- smarts, experience, knowledgeable about the business, personality, leadership, motivation, integrity, hardworking, all those things. You can make your own list.

I don't think I told you about how I picked our house when we first moved from Southern California to Northern California. We sold our house down there and I said, “I'm not going to look for a house up here right away. First I'm going to look for an area in which my young family, my two sons, can grow up healthy and happy and well-educated.” They were just turning teenagers. The first area I looked at was Kentfield, and the second area was Atherton. I was cash poor at that time, but I always had a lot of confidence in myself and I knew that I was not going to be locked into a low salary for the rest of my life. So I settled on Hillsborough.

LaBerge: You settled on the area first?

Clausen: I settled on the area and then looked for a house in the price range and close to schools. Education for our sons was terribly important. Also access to the arts, which is important to us. I looked at ease of commuting, shopping, taxes, attractiveness, how well the house would preserve its value, all of those things.

I had a friend, Dick Hawe. The Hawe family owned the San Diego to Coronado ferry and CME, California Motor Express, a trucking firm. They owned a lot of businesses in California, and Dick and his brother Jim both lived in San Diego, and I got to know them because I was the banker for California Motor Express. I used to be a trucking specialist and did some brave things in financing trucks that were not understood by the trucking expert in Northern California. Parenthetically, when I came up here to run the department, he did something that just made my eyes roll. It's one thing to be aggressive on facts, but it's another thing to be aggressive for the hell of it. You’ve always got to base your actions on solid facts, and he didn’t.

In any case, Dick was moving out of San Diego, and I ran into him one day by accident a year after we were here in the north. He said, “I'm moving up here. Jim's going to stay in San Diego and run the business down there, and I've got to come up here and work, because CME is headquartered up here and it has problems.” He said, “I need to find a house. How did you go about it?” I said, “First you pick an area based on what's important to you.” He had a young son who was Mark's age, our

youngest, (both of the boys are thirty-nine years old now), so I said, “If schools are important, then I'd check that. When I came up here I made a list of factors important to us – education, the arts, access to the city, I knew I was going to be working in the city so transportation like a great commuter train was important, and all of that.” I had about nineteen points, which I rated and compared. He said, “That's great! Could you send me that list?” I pointed to my head and said, “The list is up here. I'll drop you a little note.” So I did. About six or seven months later I bumped into him again and I said, “Dick, great to see you. Have you moved yet?” He said, “Yes.” I said, “Where'd you go?” He said, “Hillsborough.” I said, “Well, that's where I live!” [laughter] To make a long story short, the house he selected was maybe a block away from our house. So I guess that using the same list led us both to the same place! Interestingly, our wives had not met each other, though Peggy had met Dick. So I sent Peggy over to see Louise Hawe. She knocked on her door and proceeded to tell her, “Here's a great place to get Dick's shirts done, and here's a good baker, and here's the best place to buy meats, and here's a good plumber and an electrician...” She told her all the things that are helpful to a new person coming into a neighborhood. They became very close friends, and they still correspond. Louise comes up once every year or year and a half or so, and they spend an afternoon together. So I told Dick, “Let's resolve that we will not give this list to anybody that you and I don't like, because we sure as hell don't want to have that person as a neighbor!” [laughter] It was sheer coincidence, but we used the same form.

I learned that trick from Francis Herwood, whom I’ve talked about before.

LaBerge: Yes, you have.

Clausen: He was the senior officer in Southern California. He was one of my mentors and a wonderful man. Francis is now ninety. I talked to him the other day. He just got out of the hospital and he's frail. But he's a great individual. I don’t remember if I told you that in the early days of the Indy 500, the drivers would have an engineer ride in the car with them around the track. In about the fifth Memorial Day race, the great driver Peter de Paolo asked Francis to ride in his car as the engineer. This would have been back in the early twenties. Francis has lived a life that would be fascinating to put down and portray.

Francis taught all those he was exposed to. He taught you the basics from the ground up – to date a memorandum and to write so everybody can read it. He taught me to create a grid with arguments for approving a loan and arguments for declining it. Then to weigh the two. And if the negatives

outweigh the positives, it won't take a brain surgeon to know the loan should be declined. We all learned the system. And that stuck with me. I used the same approach to help me evaluate candidates for the CEO job. I listed a bunch of things and then I rated three people who were all insiders. I shared that with one director. I talked generally on a grid with one other director. Only one of those directors was on the search committee. I talked with Dick, but maybe by my actions, my chemistry, I indicated who I wanted.

[Reference: End of Tape 27, Side A. Begin Tape 27, Side B]

The Importance of Personal Integrity

LaBerge: You've talked quite a bit about the importance of personal integrity. I'll bet that's a key quality on your checklist for CEOs.

Clausen: One of the most important attributes in a boss of the BankAmerica Corporation is personal integrity. If the boss plays hooky in an organization, no matter how large or small, that will trickle down to those below, and people in those positions will start to do it. The boss is the touchstone for everyone else's attitude and behavior -- how he comports himself, how hard he works, how prepared or ill prepared he is – others will mirror that. It all starts with the boss. If you're the boss and you want your employees to really support United Way, you have to support United Way.

Self-confidence, Ego, and Arrogance

LaBerge: Another attribute you've talked about is self-confidence. It strikes me there may be a fine line between self-confidence and a cocky ego and arrogance. I know you've thought a lot about this issue. Would you tell me your views?

Clausen: If you're out there as the CEO of the nineteenth most profitable corporation on the New York Stock Exchange, you should have high self-esteem and not be looking up to Jack Welch and the other big guys who are CEOs. You ought to have a certain self-confidence and stand shoulder to shoulder with them. You can't succeed without ego. Everyone has ego. You find somebody without ego, and they're probably not going to amount to anything. But how you evidence the ego, how palpable, how attractive the ego is, is what's important in leadership. There are those who are cocky -- that's ego. But there are others with a quiet subdued

confidence – that's also ego. But the latter is what I look for and that goes into my selecting senior managers.

[Reference: End of Tape 27, Side B. End of Interview 7]

Clausen: The thought just occurred to me that I never used to talk about arrogance. I never used to think that I was arrogant. During the 1970s I always felt myself to be a very humble person, a listener, even having some doubts about how well I was implementing ideas. But by the same token I felt I had a very strong view of the direction that I wanted the corporation to go in. And in a non-arrogant way I had strong confidence in my ability to do what's right and to keep everyone with me -- to be the leader, to get others to support my action.

It's only after coming back to the bank after being gone almost six years that I thought, "Well, that's kind of arrogant that I've referred to myself that way." By golly, maybe I *am* arrogant in some ways. I do have a very strong ego, but I try to evidence it in positive and non-confrontational ways. I *can* be very confrontational. You've been on the fortieth floor and seen where the CEO sits, with two secretaries outside. There have been times when I was in my office and I got terribly excited or upset with a senior officer or even with a customer and my voice carried out of the office. So one of the secretaries would get up and close my door.

LaBerge: Why might you get upset at a customer?

Clausen: It might be because the customer was abusing his or her account or taking undue advantage of the bank. I remember having one of those customers in my office and telling him, "I want you to close your account. We can't afford to have it." My general counsel George Coombe was there because I wanted to make sure that I was being legally correct and wouldn't be sued.

I've used the word arrogant a lot in my talks with you. So I guess it says that part of me does think of myself as somewhat arrogant. But I prefer to think of myself as really trying to do good and right and willing to go down to defeat on principle. And my Norwegian stubbornness on that front can be seen as arrogant. But principle means a *lot* to me, and I think it should to anyone, and I teach that. It's no shame at all to be defeated by standing on principle.

And that's the way I've tried to live my life.