Transcript of interview with

WARREN C. BAUM

July 23, 1986

By: Robert W. Oliver
OLIVER: This is Robert Oliver, on July 23, 1986, about to have a conversation with Dr. Warren Baum about his experiences in the Bank. I wonder if we may begin by my asking you to tell a little bit about how you came to the Bank, a bit about your career before you came to the Bank, and then go on to summarize the highlights of your career with the Bank.

BAUM: Well, I had had some experience in the international field before joining the Bank, specifically in the Marshall Plan of the United States Government where I worked for four years. I was the French desk officer in that program so that I had an introduction to foreign affairs and enjoyed it very much.

OLIVER: I have to interrupt straight away to ask if you knew Andy [Andrew M.] Kamarck, who was working with the Marshall Plan in those days.

BAUM: Yes, I knew Andy and I knew several other people who went from the Marshall Plan to the World Bank. After I'd written a book for the Rand Corporation on the French economy and worked for a further spell in the U.S. Government, I thought of going back to the international field. I naturally thought of the World Bank because of the presence there of a lot of people whom I had worked with earlier and respected and because at that point the U.S. aid program was already deteriorating rapidly whereas the Bank's future still seemed to lie before it.

I joined the Bank as a country economist. The first country I worked on was France.

OLIVER: May I ask where you did your economics work?

BAUM: Yes. I got a bachelor's degree from Columbia University, and a Master of Arts, Master of Public Administration and Ph.D. degree in economics at Harvard University.
ONIVER: Marvelous.

BAUM: I joined the Bank as a country economist working on France, the country I'd worked for in the Marshall Plan and written a book about. The Bank was not then lending to France but it had a project in Algeria, and since Algeria was a dependence of the Metropole, they wanted somebody who knew French and who could relate Algeria to the political and economic system of France.

OLIVER: This was in what year?

BAUM: This was in 1959, 27-plus years ago. I worked as a country economist on France, Algeria, and then Spain and Portugal when those countries became more active in the World Bank's affairs. I was a country economist for several years in a geographical Area department, the title of which says something about the world as it was then perceived: it was the Department of Operations - Europe, Africa and Australasia. We had no trouble embracing all that rather large area in one department. I found that the loan operations which we were involved in were of interest to me. And the Area department at that time had a policy that it required a staff member of its department to go on every project mission, because it thought that project work was too important to trust just to Projects staff. They wanted to have their own staff participate. So I became involved in these missions as a loan officer and was involved in negotiating some of the loans which eventuated from them. Out of this I then became a Programs division chief in the same Area department, and then, by virtue of the work which I had done in transportation projects on the loan side--I'd gotten very deeply involved in those projects, particularly one on the Spanish railways which turned out to be probably the most ambitious project which the Bank had undertaken to date--I was invited by Siem [Simon] Aldewereld, who was then Director of Projects, to join the Projects Department as the head of the Transportation Division.

OLIVER: About what year would this have been?

BAUM: I think this was 1964. One footnote to that--I was the first economist or staff member of an Area department to bridge the chasm which separated the Area departments and Projects Department to become a part of the Projects Department in a managerial position.
OLIVER: I understand there was creative tension between projects people and those in the various Area departments. Could you comment about this since you bridged this gap rather early on?

BAUM: Well, it was very much a reality. The division of responsibility was that the Projects Department was responsible for staffing and conducting the appraisal of projects and their supervision once a loan was made for them, whereas the Area department was responsible for identifying the project, negotiating it and administering it, as distinct from supervising it. This was a very ethereal distinction. It meant that if a problem which arose during the supervision of a project was serious enough, then the Area department would get involved in it and the two departments would have to agree on the approach. Similarly, at the appraisal stage the Projects Department appraised it, the Area department would negotiate it and present it to the Board, and the positions of the two departments had to be harmonized. But they had separate managements and frankly poor relationships between the heads of the Area departments and the top management of the Projects Department, so that many issues had to be resolved in the Office of the Vice President, [J.] Burke Knapp, during most of this period, or in the Loan Committee deliberations. These were very separate, equal departments whose relationships were difficult to coordinate.

OLIVER: Within the Area departments, as distinct from the Projects Department, what was the relation between the economists like yourself and the non-economists? Was there also some creative tension there?

BAUM: Very little because their functions were fairly clearly defined. Country economists did the economic report on the country and were responsible for assessing its creditworthiness; the loan officer was responsible for loan negotiations, relationships with the borrower, and loan administration, so that there were comparatively few cases where there was conflict. And there was much more mobility within the department; the economists and loan officers could change places from time to time so that the barriers tended to be broken down.

OLIVER: It was not uncommon, I guess, as in the case of Jerry [Gerald] Alter, for example, for an economist to become division chief, or Vice President, for a Region?
BAUM: It was not uncommon, although Jerry Alter's path was a little different because he was in the economics complex before. He came in to the Department of Operations - Western Hemisphere at the top; he did not arise from the ranks of the economists of the Western Hemisphere Department.

OLIVER: You were never in the Economics Department?

BAUM: No, I was never in the Economics side of the house, no.

OLIVER: Well, back to what you were about to tell me about the Projects Department when you became head of the Transportation Division.

BAUM: It was then the Transportation Division and I was the division chief. One of the problems which we had in our relationships with the Area departments was that the Projects divisions were much larger than their counterpart Programs divisions and in fact had much larger responsibilities. One of the administrative solutions to this which George Woods introduced was to make the heads of the Projects divisions assistant directors - Projects, which put them intermediate in the hierarchy between the Programs division chiefs and the department directors and the Area departments.

OLIVER: I don't quite understand what you just said. There was a Projects person who was in the Projects Department but somehow was second in command in an Area department?

BAUM: No, I'm sorry, I may not have made that clear. You had Programs division chiefs, and then the next layer in the Area department was the deputy director of the Area department and then the director. On the Projects side, an intermediate level was put in between the division chiefs and the director and deputy director and the associate director of the Projects Department. That was the assistant director in charge of a particular sector. And this had no counterpart on the Area side and meant that the head of the Transportation Division as an assistant director was senior to any of the Programs division chiefs.
OLIVER: Did this reduce somewhat the creative tension?

BAUM: No, I think it just added another dimension to it because of the envy of the Area people to the elevation of the Projects staff to a higher level. And the Projects Department had enormous power because the Area departments could not appraise projects or supervise them except by getting a decision from the Projects Department to allocate staff for that purpose. So as Assistant Director - Transportation, I had the power to decide which of the transportation projects of the Area departments would proceed, and on what schedule. This was an enormous degree of control over their programs. They could not initiate loan operations involving projects without the approval of, and indeed the initiative of, the Projects Department. And a lot of tension grew out of this control.

Of course the basic source of the tension is the one which is inherent in Bank operations between the country focus and the project focus. To what extent do you insist, to take a simple example, on a higher tariff for power in the interest of financial viability for the power entity but against the wishes of the government which for anti-inflationary or political reasons is anxious to keep down the price of power? When you had two separate departments, the Projects Department would insist the tariffs had to be raised, the Area department would insist it was politically unfeasible, that our country relations couldn't support that approach. It would have to go to the Loan Committee for resolution.

OLIVER: But that sort of conflict was reduced somewhat over time, was it not, as it became Bank policy more and more to make suggestions about the policies of the borrowing country, so that it was less and less likely that a project would be funded which could not in some sense pay for itself over the long run?

BAUM: Well, in a way I think that made the tension more acute because it extended over a larger area. If you simply had projects which had technical and financial dimensions and did not raise broader issues, there was less confrontation because the Area department was not likely to have a position on the height of a dam or the balance sheet of the power authority. But the more we got into broader issues, the more scope there was for legitimate differences of view as to what was politically feasible and what was desirable from the point of view of the project.
OLIVER: The whole issue of externalities, I take it, was raised probably by economists with there being a big difference between the user paying the full cost, on the one hand, and the others benefiting but not being able to pay, or at least there not being an easy way to make them pay. I would have thought in the case of power, though, that that was less likely at the time.

BAUM: Well, the issue in power was clear. In highways, for example, the notion of user charges is less accepted and more varied in its implementation in terms of the different types of charges which you can appropriately levy. With power, as you suggest, there are tariffs or other means of recovering costs, and the internal structure of the tariffs is less a matter of concern. But the question whether or not you would raise tariffs and how much and how fast was a burning issue almost every time a power project came up, and there was ample room for legitimate difference of view between the Area departments and the Projects Department.

OLIVER: I think one gentleman told me that when he was in charge of a large part of Africa he had very difficult time dealing with Chad because it was very hard to get Projects people to ever go to Chad. They were usually engaged somewhere else, which is an illustration of the point you were also making.

BAUM: There were schedule problems which came up repeatedly.

OLIVER: Well, without my interrupting so much, maybe you would just tell what you would like to tell about your work over the long term with projects of whatever kind.

BAUM: I might enter it by just completing the description of my career. I moved from being in charge of the Transportation Division to Associate Director of the still monolithic Projects Department. I was the number two man in that department to Bernard Chadenet when Aldewereld became, in effect, Vice President in charge of both Projects and Finance. He then divorced himself from the day-to-day responsibilities for projects and Chadenet and I, as his deputies, were pretty much in charge of that department. That continued through the early days of the [Robert S.] McNamara presidency, which brings us up to the reorganization of 1972, which was a major event in the history of the institution, which I might insert my own point of view and experience on.
OLIVER: Please.

BAUM: I observed McNamara's presidency with a great deal of interest. Should I mention McNamara in the beginning?

OLIVER: Please.

BAUM: I have an interesting vignette on McNamara's presidency which goes back to his earliest days, which I observed at first hand. Chadenet and I invited him to attend a meeting of the central management of the Projects Department, which was the heads of the individual departments and the front office management and advisors. We had prepared a briefing session to last about an hour, where each of the senior staff members would explain to McNamara in about 10 minutes the principal things which he was doing. McNamara came in and sat still for about five minutes of this. It began with a presentation by Jim [Lionel J.C.] Evans about the work of the Agriculture Department, our senior department in terms of lending and also alphabetically the first. But then McNamara interrupted and asked Jim Evans what he expected to be doing in agriculture five years from now. Evans and the rest of us were nonplussed, because no one had ever asked us to think that far ahead before. Under the previous administrations the Bank had lived very much hand to mouth. Projects came in from others; we did not have long-term programs by sector or by country and certainly not a program for the Bank as a whole. This quickly became apparent to McNamara, and one of the first acts which he undertook as President was to introduce a five-year plan. It was a very rudimentary and imperfect plan, but the forerunner of much better and more sophisticated plans to follow.

One thing which struck me about McNamara was that, although he clearly was, in the tradition of his predecessors, someone who intended to run the Bank as President--and run it very much singlehanded, as it were, make the final decisions--I heard him say to various individuals in my presence that even after a year or two in the Bank he had not gotten a handle on the institution, he had not yet found the way in which he could operate the levers of command. These levers were very much in the hands of Burke Knapp and the Loan Committee and the process which I've been describing. McNamara sat at the apex of this, he chaired the Board meetings, but he did not control this process. I've always been convinced that the motive for the reorganization of 1972 was to create a new and different organization which would be under his control. And indeed that happened.
OLIVER: Well, he in fact had a management study by McKinsey and Company, did he not?

BAUM: He did. He was the one who recruited McKinsey. They met with him on a weekly basis during the period of whatever it was--nine months--that the study was in progress. One doesn't have to be too much of a cynic to believe that the conclusions which they came up with were ones which were not incompatible with McNamara's views as to how the Bank should be reorganized. And of course the major element of that reorganization was to break up the very large monolithic Projects Department and to regionalize the staff in all of those divisions which were large enough that they could staff separate units and Projects departments in each of the geographical Regions which were established.

OLIVER: I take it that he felt that this did give him a better ability to control the Bank, to manage the Bank?

BAUM: He did. He was unable to put his own people into positions of command. He broke the power of the Projects Department, which I think in practice was stronger certainly than any of the individual Area departments, and he introduced another element of management, which was the country program paper--CPP--which was designed to prepare a strategy for the country. He chaired the meetings to discuss the country program papers and this gave him a chance to master the program for each country and to give it his own personal stamp of approval. He never intervened on individual projects, however.

He never tried to seize control of the Loan Committee process and the processing of individual projects which took place more or less as before. But one of the results of the reorganization was to internalize the creative tension within each of the Regions. Each Region now had a Programs department and it had a Projects department. And the same issues, which I illustrated in the case of power tariffs, surfaced repeatedly in the lending operations of each Region. The tension continued except it would be resolved at the level of the Regional vice president. It didn't spill over into the Loan Committee except to the extent that one side or the other was sufficiently dissatisfied with the solution which was arrived at that they would appeal it to a higher level of management, which would have been the Loan Committee; or unless it was brought to the Loan Committee by the Central Projects Staff, which included a lot of specialist experts and advisers, and the staff of those Projects departments--such as Industrial Projects or Population and Nutrition--which were not regionalized.
OLIVER: In the case of the operations of the Loan Committee before this reorganization, I take it, the presentation would be made in the first instance by the loan officer, but the Projects people would be the major presenters of the engineering aspects of the project, so the Loan Committee was very heavily related to the Projects Department, per se. Is that correct?

BAUM: In its earliest days, my first exposure to it, the Loan Committee consisted of all the department directors of the Bank and every loan came before the Loan Committee. I remember being struck by the fact that people whose responsibility for the project was very remote, if any, still felt quite free to express views on the merits of each project which came before it. It was very much a free-for-all. The Economics Department was there. Each department was represented. Then as the operations got more numerous, the Loan Committee was greatly reduced in size and then it only met exceptionally on projects which needed to come before it. By the McNamara era, for example, not more than one project in 20 or 25 actually came before the Loan Committee for consideration.

OLIVER: I thought the Articles of Agreement specified that each loan had to be approved by--I think it didn't say specifically "Loan Committee," but by something that amounted to that?

BAUM: That is correct. But what I was referring to was whether or not it met. The formality existed, and still exists. The Loan Committee consists of five or six persons who have to approve each operation, but they approve it individually by eventually signing the Statutory Loan Committee Report. They did not meet to discuss the problems which they may have with it. I, as Vice President, Projects Staff, had to approve every loan. I would transmit my comments to the appropriate people in the Regions or the Projects departments. But unless there was a major issue I would not refer it to the Chairman of the Loan Committee and ask that there be a meeting of the Loan Committee. So as a group the Loan Committee met only infrequently.

OLIVER: The Loan Committee was chaired, I think, by Burke Knapp for a very long period of time, was it not?
BAUM: That's right. And after him, Ernie [Ernest] Stern, who replaced him. It was the Senior Vice President, Operations, who was always the Chairman of the Loan Committee during the period that I was familiar with it.

OLIVER: I want to come back to the reorganization of 1972 in a moment, which is where we were. But since we're talking about the Loan Committee and various sorts of approvals, would you comment on the existence of an Economic Committee, which became somewhat more important in the 1960s when George Woods was President and at least sought to have discussed before it most of the projects before they went to the Loan Committee?

BAUM: Well, the Economic Committee did not review the project. What it reviewed was the economic report of the country, which would accompany the project. The documentation would include an appraisal report and an economic report, and the economic report would go to the Economic Committee for approval. And at one time, under Leonard Rist, with Jerry Alter as his deputy, every economic report went before the Economic Committee, which had present all the senior economic staff of the Bank. They would tear each economic report apart. I remember the economic report on Spain going through this process, which could be very exacting and exhausting for the participants.

OLIVER: This was still when Mr. Black was President?

BAUM: This would have been 1961, so Black was President, that's right. But then with the increasing size of the institution and volume of lending, the Economic Committee ceased to meet as such on each economic report. And when you had multiple operations in a country, you didn't write a separate economic report on each one. Only the major reports would be reviewed by the Economic Committee.

OLIVER: I see. Did the composition of the Committee change in the Woods years?

BAUM: I'm not familiar with that.

OLIVER: Did you yourself attend the meetings of the Economic Committee?
BAUM: No, I did not, except during the brief period that I was a country economist and my report was being reviewed. I was not part of the Economics management complex.

OLIVER: Well, then, if we could come back to the reorganization and to the five-year horizon, two questions that I wanted to ask: was the five-year projection or horizon something that comes from McNamara individually or do you think it was part and parcel of the Hollis Chenery era in the Economics Department where more econometric kinds of studies were attempted, I think, and carried out than had been true earlier?

BAUM: Well, I can't speak positively or negatively as to whether Chenery may have influenced McNamara, but my sense was that this was a policy which entirely fitted with McNamara's approach to the institution, that he was very much in favor of long-term planning. He wanted to know where the institution was going. And he used the long-term plans as a vehicle for what I regard as an enormous accomplishment. Under George Woods we were more or less stalled at a level of operations of about $1 billion of lending a year, 40 or 50 projects, and about $1 billion worth of borrowing. And we were convinced that this was all that the financial markets could absorb by way of lending to the Bank and all that was appropriate for the institution to do. This was our niche. McNamara removed those barriers and changed our vision entirely. You know, by the time his presidency was over we had increased the volume of our lending more than ten-fold, and the vehicle for doing this was the periodic assessment of our objectives and the resources necessary to accomplish them.

OLIVER: Well, so the resources—the increase in capital subscriptions, for example, the increase in IDA Replenishments—followed from the demonstrated needs of five-year type projections?

BAUM: Yes, that's exactly right.

OLIVER: And I take it that Woods would more likely have supposed that in the absence of capital subscriptions, only so many bonds could be sold and that's what set the limit on the amount of loans that could be made. It was not the old absorptive capacity argument that was made in the Black years, that countries could only use a relatively small amount of capital in any event.
BAUM: Well, creditworthiness was always part of the picture. It's just that McNamara had a much more ambitious, expansionary concept of the role of the institution than either of his predecessors and he proved himself to be right. I don't think he strained creditworthiness unduly by expanding the volume of lending the way he did, and he proved that the creditworthiness of the institution could support a much larger volume of borrowing than had been undertaken in earlier periods.

OLIVER: Well, in some sense if projects are always economically and financially feasible, then the greater number of projects, the greater the absorptive capacity becomes, because the whole national income is rising. Is that...

BAUM: That would be true by itself and if we were the only institution which was lending to a particular country it would be all that you would need to say. But if the country is overextended in its borrowing as a whole, there may be no room for the Bank to lend, regardless of the merits of individual projects. Also, many projects, although economically sound, do not generate the foreign exchange necessary to service the additional foreign debt that they create.

OLIVER: I understand. Did the five-year programming have an effect upon the projects cycle in terms of sometimes inducing projects to be put before the Loan Committee sooner than they might otherwise have been?

BAUM: I think it did in this somewhat oblique sense that McNamara set very ambitious sights for the institution. It was entirely appropriate for him to do this, but what he didn't always sense was that there could be a trade-off in a particular operation between the desire to lend more and what might be appropriate or desirable in a particular context. Something which struck me about McNamara was that he was a very articulate individual, but he had one word which was not part of his vocabulary and that was the word "trade-off." He thought you could have more of everything. You could have more lending and more quality lending and higher quality lending. And he was right in the broad sense and in the long term. He not only increased the volume of lending dramatically and the volume of borrowing to support it, but he led the Bank into new fields of lending; he encouraged poverty lending, concern about a wider range of issues, rural development, urban development, the environment, things of that sort, so that he enabled us to do not only more lending but better lending. In this sense there
[BAUM]
was no trade-off. But he generated tremendous pressure within the institution to reach lending targets and he felt it was a personal embarrassment to the institution if he said we were going to make 182 lending operations and we only did 176. The Regional managers felt a great sense of pressure to reach the lending targets for country and Region. In the context of individual operations, this put a lot of pressure to move projects forward rapidly, and projects staff were not always happy that in the process some corners were being cut. This type of tension was a very real part of the process.

OLIVER: Well, if a Projects person in the Bank was not at all sure that a project was really ready to go, but he was being pressured because the program said that it ought to be ready by a certain time, what would he likely do? I'm sure it was different from individual to individual at the Bank.

BAUM: Well, within the Area departments, now called the Regions, the issue would be resolved by the Regional vice president. And several of these Regional vice presidents were alumni of the Projects departments and thoroughly understanding of and sympathetic with the whole projects approach, but nevertheless as vice presidents they felt the strong responsibility to deliver their program and they sensed that the signals from Management, from top Management, were to achieve the program. These were matters of judgment. I'm not saying that the Projects people were necessarily right and the area or Programs people necessarily wrong. But there's no doubt that throughout the institution there was a strong feeling that they had to achieve the lending targets, and there was tension as to how much time you could spend on appraising and supervising projects consistent with this.

OLIVER: Were the targets of five-year programming pretty much always met during the McNamara years?

BAUM: Yes they were. In broad terms, my recollection is that most of his program targets were met or exceeded.

OLIVER: Had McNamara remained another five years or somebody, a clone of McNamara, become President when he stepped down, could that rate of increase have been sustained indefinitely?
BAUM: Well, it has been sustained since then. The Bank has expanded its volume of lending, which now stands considerably higher than it was at the end of the McNamara period. There was one year during the height of the debt crisis when there was a dip in lending, but other than that the trend has been consistently upward on the Bank side. IDA has not achieved an increase in real terms and IDA has suffered, in fact, a reduction in real terms.

OLIVER: And I take it that the ability to sell bonds in the market has never been a constraint?

BAUM: No, the Bank has become much more imaginative in the way in which it has used financial instruments to raise money. I would credit this very much to [Alden Winship] Clausen as well. Gene [Eugene] Rotberg as Treasurer was the one who I think invented or sponsored most of these schemes but Clausen, with his financial background, understood them thoroughly, saw their advantages, and championed them before the Board. I think he has to be given full credit for the great expansion in our borrowing capacity without sacrificing the creditworthiness of the institution which has taken place consistently and particularly over the last five years.

OLIVER: Well, let us finish the chronology of your career, so to speak, and then come back and redo a bit of it in terms of time. You were deputy to Mr. Chadenet as I recall.

BAUM: That's right. That was the situation until the reorganization of 1972. At that time Chadenet left the Projects complex to become Vice President, Organization Planning and Personnel Management. Aldewereld, who had been both Vice President - Finance and Director, Projects, became only Vice President, Finance and I became Vice President, Projects Staff and the senior individual in the Projects side of the operation. But two-thirds of the Projects staff had been regionalized. I was responsible for the one-third which was too small to regionalize. That included the Population and Nutrition Department, for example, and for a time the Development Finance Company Department. And also the Industrial Projects Department, which, although large, in fact consisted of a number of subsectors which had no fungibility so that the staff working on cement or fertilizers was insufficient in number to be regionalized. In addition to those functional staff who remained centralized—who were operating staff but still under central management because they were...
too small in number to be regionalized—we then set up shadow departments in agriculture, education, transportation, and power to perform an advisory and functional control activity vis-à-vis the operations which became the responsibility of the Projects departments in the Regions.

But the Central Projects complex was quite large. I think at its height it contained probably 350 professionals, larger than the professional staff of any Region, for example, so it was a major element in the project process. And I would say that McNamara gave it full support, that he accepted the notion of functional control. He wanted to make sure that project quality continued or was increased, and he encouraged the Projects staff to exercise their functional control responsibility. He was quite prepared to live with a large amount of friction and tension in the process in order to achieve this purpose.

OLIVER: Do I understand correctly, though, that the people who remained in the Central Projects Staff represented the types of projects for which there was not a large enough demand to have these positions filled at the Regional level?

BAUM: That was a part of it and that accounted for the majority of the Central Projects staff. But take, as an example, the agriculture sector. Most of that staff was regionalized but there was an Agriculture Department established within the Central Projects Staff. It had two types of staff: it had individual specialists who were operational in character but too few in number to be regionalized, the fishery and the forestry staff, for example. We probably had three foresters. We couldn't split them into six Regions, so they had to remain centralized. But then we had a series of advisers: an irrigation adviser, a tree crop adviser, a plantation adviser, and a credit adviser and so forth. Although these activities had been regionalized, we had central staff who were senior in experience and who looked across the six Regions and reviewed all the projects to see, for example, that irrigation policies were consistent Bank-wide with respect to cost recovery, design, supervision and so forth, and that the projects met the standards of the institution regardless of the fact that they were coming out of six Regions. So these advisors had very important functions to perform in, in effect, looking over every project and commenting to the Regions about it.
OLIVER: I understand. Will you comment upon the simultaneous changes going on in the Economics Department? I think that in the 1960s there had been some effort to have a division in the Economics Department, like say education, or population, that might have a counterpart in the Projects Department. Did that continue after reorganization?

BAUM: Well, these activities of the Economics Department became very much of an anomaly after the reorganization because in the activities of sectors which had been regionalized, such as agriculture, a program of research and policy work grew out of the advisory functions, which remained centralized, to support those advisory activities. The Central Projects Staff would find, for example, that issues of cost recovery and pricing would be very important in agriculture and irrigation, so we would launch our own research and policy papers on those subjects. Meanwhile, in the Economics Department, which had not been substantially affected by the reorganization, their agriculture staff might be having its own research and policy program, which was inconsistent with ours. There were efforts to establish a functional definition of the boundary to separate the Economics Department's work from that of the Central Projects Staff. But these boundaries were very difficult to identify in practice and how well they worked depended on the collaborative relationships or antagonisms between the heads of the units concerned. But on the whole the division of responsibility did not work very well and the friction was more or less continual. McNamara made some efforts to resolve it but he found himself trapped between fairly strong personalities. He backed off from Draconian solutions which, logically, would have meant the transfer of these functions to Central Projects because the closer they got to operations the more relevant they became to the concerns of the Bank. It was only when Clausen came in and was immediately confronted with this as one of the major unsolved organizational problems of the institution that he seized the nettle and in effect transferred to the Central Projects Staff all of the policy and research functions in those sectors which had been regionalized.

OLIVER: I think at lunch you told a rather interesting story of a person who was hired into the bank to be an economist in general economics work and found himself quickly transferred into Projects.
BAUM: Well, he should have been quickly transferred by the logic of the definition of boundaries which was worked out under McNamara's sponsorship. But the individual in question had been personally hired by the head of the Economics Department, who refused to let him go. McNamara backed off from insisting on enforcing a logical solution. He was often prepared to live with a certain amount of organizational illogic.

I think that to understand McNamara and his successors, a key distinction is the familiar one between a leader and a manager. McNamara was the quintessential leader. He led the institution, and he led it, to my mind, to new and very important heights. He was, in my view, a poor and indifferent manager. His concept of management was information up, decisions down. He felt competent to make most of the decisions in the institution; what he wanted was the information on which to base those decisions. He would grudgingly listen to advice and then make up his own mind regardless of the preponderance of that advice, unless he was told that a major part of the staff was alienated by what he was doing. Then he would be caught up short and have to become more collegial in his managerial style. But basically he was inclined to centralize the decision-making process and he didn't mind confusing jurisdictional boundaries in the process. If he thought that, for example, Hollis Chenery might have a useful opinion on a subject which was my responsibility, he'd ask Hollis to advise him on it, or vice versa. It was not just the two of us; he would ask anybody in the institution--or outside of it--who he thought might be helpful to him in arriving at a decision for his input no matter how much this blurred the chains of command. He was quite happy to live with the confusion which resulted as long as he got information on which he could base his decision.

OLIVER: Having introduced this subject of leadership and management style, would you say what you care to about the management and leadership styles of other Presidents of the Bank under whom you served.

BAUM: Well, I can speak with less authority about the earlier ones. I served only briefly under Eugene Black and not in a managerial position. The Bank was a very small and intimate family in those days and my sense is that Black had the reins of command very firmly in his hands but he relied heavily on his General Counsel and Burke Knapp for their inputs and advice.
OLIVER: So this was a more collegial—if that's the right word—approach to decision making?

BAUM: My sense is that Black made the decisions but he relied heavily on his close associates for their inputs and consultation. My sense is that George Woods was also someone who, like his predecessors, was prepared to take the decisions himself. He continued what I might characterize as a rather presidential, autocratic style of management which the institution has had through most of its lifetime. He was less prepared, perhaps, to consult his associates and more inclined to make up his own mind in matters which he was personally interested in.

OLIVER: Does that imply that he was more like McNamara as you described him than like Black?

BAUM: I think it probably would imply that. The expression which George Woods used repeatedly, indeed which came to be associated with him, was "I hear what you say," which indicated that he had allowed you to speak but that you had not changed his mind at all. I think that very much illustrated the mindset which he had in those areas where he had some reason to form a judgment of his own. But he did not have McNamara's vision of the future.

OLIVER: Did he seek information from below to the same extent that McNamara did?

BAUM: I would doubt it. Again, I wasn't close enough to Woods in a managerial capacity to sense it. But McNamara relied heavily on data and facts as inputs into the decision-making process. Chadenet and I had a private expression in characterizing him which was, "What can't be counted doesn't count." And although McNamara was inclined to deny it, he put great weight on what could be quantified. He had an enormous appetite for data and could consume vast amounts very quickly, and master it in the process. He was really on top of...

OLIVER: I think you told an interesting story in our earlier conversation about his asking for an off-hand opinion by you as to the number of farmers per extension worker, or something like that. Is that worth repeating, perhaps?
BAUM: Well, one of his colleagues who came over from the Pentagon and who was familiar with his approach there when he would have to make presentations to groups, referred to the way in which he dealt with the staff at the Board as a "dog and pony show," where McNamara would be leading the staff through an exhibition or circus, as it were. I think that's a little derogatory, but McNamara, sitting as Chairman of the Board, was the complete master of the subjects which came before it, including the individual lending operations. He was superb in fielding the questions which were asked by executive directors. One of the odd features of the institution, to an American, is that most of the management style is British, not American, and the Board of Directors was very different from what I was familiar with in the U.S. Government in that all the remarks were addressed to the Chairman. Directors never spoke to each other and they never spoke to the staff; they spoke only to the Chairman, and he was the filter between them and the staff. He would take their questions, make much more sense out of them often than the questioner himself was aware of, make them very pointed, and then ask the staff to respond and help the staff, if necessary, and elaborate on the answers after the staff had done it. When he had a certain amount of confidence in the staff, he would engage in a kind of display.

In my case--and I always sat at the Board table as the senior staff member on the Projects side--he would assume that I had a mastery of facts which I sometimes did not. My mind doesn't work that way. I've never collected factual information the way he did. I'm more interested in the policies, procedures and processes behind the numbers. So he would ask me these very odd, random questions, like the number of extension agents per farmer in developing countries. While I would clearly be fumbling, he would say, isn't the right number such and such. And by that time I was getting on stream and I would think whether or not it was a plausible number and almost invariably the number which he suggested was the correct one.

OLIVER: Of course he had the advantage in knowing what question he was going to ask.

BAUM: That's true, but I was enormously impressed by his mastery of all of the subject matter which came before the institution. This, in the end, did not rescue him from difficult relationships with the Board--if this is a subject which you want to get into--because I think it is still a major problem facing the institution.
Maybe I can take it historically. Eugene Black, as I understood it, had excellent relationships with the Board. He was very much in command of the situation and of the executive directors; they accepted his authority. George Woods' relationship with the board was less happy. I think it partly had to do with his rather prickly personality, his disposition not to suffer fools gladly, and inevitably at any Board meeting some of the questions which would be raised would be foolish ones since executive directors, by virtue of the way they were appointed and replaced at frequent intervals, could not have the mastery of the subject which he and the staff developed over time. And so he would make his impatience and perhaps even his scorn reasonably evident. The directors resented this, and it created a reservoir of ill will which began to be reflected in the relationships between Management and the Board.

OLIVER: These were occasions when he might say this phrase, "I hear what you're saying"?

BAUM: That would be one of the things which he might say. Or else he would just be somewhat scornful in the way in which he dealt with the question which had been asked by a director. The directors just weren't happy about this and began to react negatively to it.

When McNamara came on board he understood, I think, quite well and right from the beginning, the function of the Board. He recognized the power which it had. He recognized that the executive directors, and the governors to whom they reported, were the ultimate decisionmaking body. He needed their approval and support for everything which he wanted to accomplish. He went, in a sense, to great pains to encourage the Board to speak out on issues, gave them an opportunity to discuss things at length. As the Bank expanded, he presented many more issues papers and programs of action to the Board so that he enhanced the importance of the Board as an institution. In this respect he very much encouraged them to assume a larger role and he respected the role which they assumed.

However, there was another aspect of his management which worked in the opposite direction. Because he knew exactly where he wanted to come out, and because he was the most intelligent
person in the room, he tended to manipulate the directors. He did this in a variety of ways. One thing which he would do is, if he knew he wasn't going to like some of the discussion, he would not respond to those directors whose points he did not agree with. He'd say, "Well, we'll wait to the end of the discussion and then I'll summarize all of it." But if a director made a point which he thought was good, he would comment on it and elaborate on it at the time. Or he would wait until the end of the discussion and then he would summarize it brilliantly, often a masterful summary of six hours of discussion. But in the process a lot of the directors would feel that their objections had somehow been glided over or manipulated in such a way that the conclusion was the one which McNamara wanted, rather than the one which at least some members of the Board had expressed. So in the end they felt they were being manipulated and maneuvered by him to arrive at conclusions which were not necessarily their own.

This became more pronounced as the McNamara years advanced. The Board members reacted negatively and they spent more time consulting with each other outside of the Board meetings. This was something which had never existed before. The Board was a collection of individuals, but as they found their relationships with the Management worsening, they spent more time meeting among themselves and consolidating their positions so that they would come to a Board meeting with, in effect, a Board position already arrived at, even with designated speakers in some instances. This was without precedent in the institution, and it made it much more difficult for the Management to deal with them. One thing which McNamara then did to try to defuse this, was to meet informally with the Board outside the Board room, so he'd have non-Board meetings with only the executive directors to try and thrash out sensitive issues before they ever came before the Board. But there was, if you will, a polarization which took place during the Woods, and particularly the McNamara, years where the Board and the staff became alienated from each other to an extent which has persisted and which I think has been very unhealthy for the institution.

Another dimension of this which may go beyond McNamara, but I think was particularly marked in the McNamara years, is the attitude which grew up that the staff was omniscient. When an executive director asked a question, the staff always had to act as though it knew the answer. This was partly because McNamara could not accept the fact that the staff might not know the answer. So there was great pressure on the staff to respond affirmatively to every question which was raised, to demonstrate that they had mastered the subject matter and that the position taken by the staff in the operation
[BAUM]

before the Board was the correct one. A sort of game was played where the Board, instead of supporting the proposed operations, tried to poke holes in them and find as many mistakes as possible, just to try to break down this monolithic wall, or what looked to them like them stonewalling, if you will. And at the same time the Management had to reinforce its position of omniscience and not admit that they ever were mistaken in anything, which they did. This reinforced the polarization between the two. I frankly found it very difficult to try and act as though I knew the answer to every question because none of us did or could. McNamara sometimes came closer than anybody, but the Board was clearly turned off by this attitude.

One illustration of it is that as more and more loans came before the Board and more time was taken by it, even the executive directors were impatient at the time which was being spent in discussing these operations. They voluntarily imposed a rule on themselves that questions would be asked of the staff before the meeting, and then the questions would not be raised at the Board table unless they involved an issue of policy on which the director was not satisfied with the staff response. But this rule was honored in the breach, because the directors did not want to tip their hands to the staff and enable them to come up with the answer; they wanted to trap the staff by not telling them the question before it came before the Board meeting. This illustrates, if you will, the character of the relationships between the Management and the Board which grew up.

OLIVER: I realize this is an almost impossible question to answer, but I think I should ask it: do you think that this change in staff-Board relations was primarily because of the personalities and management styles of Woods and particularly McNamara, on the one hand, or was it due more to the increasing complexity of Bank operations plus the increasing importance of IDA Replenishments, which required government approval?

BAUM: I think it was both, and more. There's no doubt that the Board's responsibilities were increasing as the Bank became more important as an institution. There was one episode which was something of a landmark but it perhaps just illustrates the process. The Government Accounting Office in the United States came up with a review of the World Bank--I forget what the particular occasion was--but they, in the process, characterized the Board of Executive Directors as being a rubber stamp. This was inflammatory language which became part of the Bank vocabulary, and
[BAUM]
directors were very much aware of their collective desire not to become rubber stamps. I think this just was one incident which reinforced their desire to be more independent of the Management.

OLIVER: Can you guess an approximate year when this happened?

BAUM: It was in the mid-1970s, I would think. I don’t recall the exact date.

OLIVER: It was well after the Woods years?

BAUM: It was in the McNamara period. There have been issues of personality on both sides, but I don’t want to suggest that the staff was reluctantly following the lead of Management, although the staff has consistently taken directions from its Presidents in the presidential style to which this institution has always been accustomed. But I think it fit very well with the temperament of most of the senior managers who were able people, though with the arrogance which sometimes comes with that, so they were quite prepared for the most part to play the role of omniscients.

OLIVER: Did this confrontational--if that’s the right word--relationship continue into the Clausen years?

BAUM: It did, unfortunately, and unnecessarily so because it, in a sense, was contrary to Clausen’s managerial style. I have used this distinction between leaders and managers. If McNamara was the quintessential leader, Clausen was the quintessential manager. He was a graduate of the Harvard Business School; he had been a manager in the Bank of America, he felt very strongly on management issues and he clearly felt that one of his major contributions to the Bank would be on the managerial side. He felt much less at home on the substantive side and in fact he made it quite clear that he expected to receive direction and leadership from the staff on this. He did not lead the institution on the operating side. He left that pretty much in the hands of the senior operational management. He was a leader on finance, as I suggested earlier, on fund raising; a leader on management where he imposed a lot of managerial changes in organization and procedures on the staff with mixed and controversial results; but he did not lead on the operational side.
BAUM

His style of management was very collegial; he established the Managing Committee very early on. Another of these vignettes: I've mentioned that McNamara couldn't get a handle on how the Bank was managed for a year or two. When Clausen came in he was completely befuddled by the huge volume of papers passing over his desk in the absence of any management structure other than the President's Council of 20 vice presidents as a managerial arm. And he very quickly decided that he could not manage the institution the way that McNamara had. In fact, he concluded that McNamara did not run the institution—which is incorrect. McNamara ran it the way he wanted to, but he didn't run it collegially. Clausen introduced the Managing Committee as a concept in order to give him the structure of management which he had sensed was lacking. I think his decision was a questionable one because he reasoned from his experiences with the Bank of America, and the structure which he introduced in the Managing Committee fit very poorly into the structure of the Bank, although it may have fit very well into the structure of the Bank of America. I don't know if you want me to elaborate on that.

OLIVER: Yes. Well, let me ask you this while you're elaborating. There had been a President's Council when Woods was President, but there were six people and in addition there was a senior staff which also discussed policy. Now by the time of the 1972-1973 reorganization, you get up to a President's Council of 20. So one question is: did that serve in lieu of the senior staff meetings that had existed? And the other one is: did the President's Council, the 20, become identical with the Managing Committee of Clausen's invention?

BAUM: Well, there were a number of changes. The President's Council grew from whatever size it was under Woods to the 20 under McNamara. It was the senior decisionmaking body and McNamara did convene it regularly, and all important policy issues came before it. And they were very thoroughly discussed. In the beginning McNamara would become impatient after the second or third speaker and he would interject and make it clear where he wanted the discussion to come out. As time went on, I think the senior management became more independent, they were more resentful of his style of management and that was made known to the President. There were also staff surveys which indicated a lot of discontent with the way in which the whole process of consultation was taking place, and McNamara would force himself to listen to his President's Council, although in the end he felt free to make up his own mind.
BAUM: Sorry, I'll come to that. The senior staff at the same time had also gotten much larger. McNamara met with them for some time but then he felt this was much too large a body to be useful. There would be 50 or 60 professional staff present; you had to have stylized presentations rather than a discussion, so the senior staff meetings became a series of lectures rather than exchanges of views. It met less and less frequently and finally it was discontinued completely.

OLIVER: I think under Woods the six-person President's Council met daily for maybe no more than half an hour. How often did the President's Council meet under McNamara?

BAUM: It met every month, as I recall.

OLIVER: Oh, monthly. Was there a smaller group that met much more frequently?

BAUM: Well, McNamara would bring together whoever he needed to discuss a problem. He would have smaller meetings in his office with one or two vice presidents and he would go down into the organization to bring whoever he thought might be useful to him in arriving at a final decision. So in that sense it was more collegial. He would seldom have a meeting, reach a decision, without bringing together the people who were most responsible for it, regardless of where they were in the hierarchy and one could, as a relatively junior staff member, attend more meetings with McNamara than was ever possible with Clausen.

OLIVER: I understand.

BAUM: Incidentally, one other footnote on McNamara, which I think is very interesting. The central operational unit at the working level under Black and Woods was the working party. For every loan operation, and that followed through to supervision, there'd be a working party, which was chaired by the loan officer, and which included the project officers concerned with it, the country economist, the lawyer who was working on the operation, someone from the Controller's Department who had handled disbursements--so here was a very important way of breaking down the compartment-
alization among separate departments. And the working party at the staff level, which met regularly on an operation all during its processing, became the Bank's negotiating team when they met with the borrowers, and also handled major supervision issues when they came up.

McNamara heard about this in his earliest days and he abolished it forthwith. The idea of a collegial sharing of responsibility among departments was an anathema to him. He said in effect, "I want one man to be in charge; I don't care who it is but I want to be able to put the finger on one man and have him responsible. I don't want to have that responsibility shared between a lawyer and a loan officer and project officers; only one man can be in charge." But who that man should be wasn't clear until the reorganization, when he was able to put the Regional vice presidents in charge. And he held them responsible, there's no doubt about that. But within each Region, the same compartmentalization and tension existed as before.

But to get back to Clausen's management style. Clausen found that the President's Council, which he renamed the Senior Management Council, was too large for his purposes and meeting too infrequently. He wanted a closer group of advisors and he couldn't accept McNamara's ad hoc process. He didn't know who to use for this purpose. So he used the idea of the Managing Committee, which I suspect he had imported from the Bank of America. The people whom he designated were the vice presidents who reported directly to him. Now this had a considerable logic to it because these are the free-standing vice presidencies; they were Finance, Operations, General Counsel, Administration, External Affairs, and the Secretary, who dealt with relations with the Board. But he must have assumed that these people could collectively and collegially handle all the issues that came before the Bank. Now that might have been true of the Bank of America if all these individuals were people who had moved around the institution, grown up in the ranks, had served in finance, had served in sales, had served in marketing, and ended up in one vice presidency having served in many. What I don't think he appreciated was that most of these people had never been in the Bank at all.

OLIVER: Certainly not in operations.
BAUM: Had not been in any aspect of the Bank. The Vice President and Secretary had never served a day on the Bank staff. The new Vice President, External Relations had never served a day in the Bank. The General Counsel had never served a day in the Bank, the Vice President, Economics and Research had never served a day in the Bank. Four of his key vice presidents had no knowledge of the institution which they were supposed to be collegially managing under his chairmanship, and it was a very collegial chairmanship. I know he let everybody talk and often encouraged them to talk against each other as a way of helping to clarify the issues. But he could not have gotten much useful input from people who knew so little about the institution. In time this became apparent, and a series of subcommittees had to be established, one on finance, one on operations and one on administration. This got the people who knew about the institution to participate more actively in receiving papers which eventually came before the Managing Committee. But I think that this has been an inherent weakness in the management of the Bank which Clausen imported from the Bank of America.

He imported two other major attitudes from the Bank of America. The first which I'll mention is one of relationships with the Board, to complete that lengthy aside. He could not believe when he first arrived that he had a resident Board of Directors which met weekly and had to approve every operation. He just couldn't believe it, he kept asking person after person how this could be. It was entirely alien to his experience in the Bank of America, which was the only professional experience he had had. He had never worked in any kind of bureaucracy. He clearly considered that the Board was an unnecessary adjunct to the Management of the institution. Unfortunately he made his point of view apparent to the directors, directly and indirectly, in the early months, and they resented it; and it reinforced the polarization between the Board and the Management of the Bank. I think his subsequent efforts to take the directors much more fully into his confidence, to meet with them regularly, to be more tolerant of their views, never fully overcame the mis-steps of the early years, particularly since Clausen, like his predecessors, didn't suffer fools gladly and found it very difficult to sit through eight hours of debate on questions which he thought could have been handled much more expeditiously. So he has prolonged this polarization between the Board and Management; in fact, I think it has deteriorated in recent years to the point where the budget has become a major bone of contention, which it never was, and the Board is threatening to set up a budget committee which the Management had always been able successfully to forestall. The Board has been more hostile to
Management's running of the institution, more concerned and desirous of getting involved in day-to-day control of the institution than ever had been the case before.

OLIVER: A question of speculation or hypothesis which I think is worth asking: if the Bank now under the new President and with, following the suggestions of Secretary of the Treasury Baker, attempts to have a larger hand in making policy suggestions, particularly for those countries having debt problems, will not this add somewhat to the confrontational nature of the discourse?

BAUM: It will certainly make the discourse more difficult. There's no doubt that the structural adjustment lending, which is the vehicle through which the Bank is helping countries to work out of the debt crisis, involves the Bank in more controversial issues, and those issues will be reflected in discussions in the Board. In fact, a major buzz word which sets off attitudes of confrontation between the Management and the Board is conditionality. This reflects the whole universe of conditions which the Bank Management thinks necessary to attach to loans, even if they are for very specific projects. The appropriateness and extent of this conditionality has always been a matter of friction between us and the governments to which we lend. The directors invariably pick up the dissonance from the government side and reflected in their interventions at the Board table.

OLIVER: Has it not also, back in the 1960s at least, been the source of some friction within the staff itself with the economics people, for example, wanting to suggest more in the way of macroeconomic policies than the people in the project work would likely have done?

BAUM: Well, not as much from the Economics Department because they have very little to do with the strategy for individual operations.

OLIVER: But they frequently sought it, did they not?

BAUM: But not effectively. I think the economists in the Area departments were pretty much independent of the management of the Economics Department when it came to the advice
which they gave in the context of individual country operations. But there certainly was a tension on conditionality between how much creditworthiness a country could sustain and the level of operations in the country, and between the micro or macroeconomic conditionality which were appropriate, on the one hand, for a particular project and the desirability to make more loans and maintain good relationships with the country, which were also legitimate concerns.

OLIVER: Well, we've been talking a good deal about the differences of various Presidents in terms of management style and that sort of thing. Would you care to say a word about the personalities of the various Presidents under whom you have served?

BAUM: Well, I think I probably intimated a good deal about their personalities. I think it would be rather ad hominem to get much beyond that, unless you've got some specific points you'd like to raise.

OLIVER: Well, I just wondered if there were, again, some vignettes that might be worth recounting that help to illustrate personalities. Mr. Black, for example, has been characterized by many as being an outgoing person who had the ability of diplomats to cause confrontational situations to be eased somewhat frequently by telling a funny story, an anecdote of some kind, so that he was very much respected by staff and by executive directors for his diplomacy, so to speak. And I've been told that this was less apparent in some of his successors.

BAUM: I suspect that was less the case, certainly, for George Woods. One vignette in I was involved occurred when he had reached a decision on the merits of Bank lending for an airport project in Nepal. I don't recall which side of the issue he had come down on, but he had reached the decision in light of the political and other factors involved, but without consulting his senior technical staff, which in this case were Chadenet and myself. So Chadenet and I asked to see him. He reluctantly gave us an appointment only after Chadenet insisted. But he opened the discussion by saying, "Do you really think I didn't know what I was doing?" Which was not exactly an invitation to us to reopen his decision. But Chadenet courageously said, "Well, I want to make sure that you're aware of all of the facts before you firm your decision." Woods listened to his presentation. He didn't change his point of view, although I think circumstances in the end made the whole issue moot. But in that sense I think Woods was much
more inclined to go his own way. He did not command the respect of the staff, and I don't think there was a great deal of unhappiness when he departed the scene. But he did get the Bank engaged in agriculture and education lending on a significant scale, and for this he deserves a lot of credit in my book.

I think the attitude of the staff toward McNamara was much more ambivalent because the individual himself is very complex. Everyone admired and respected his leadership and his thrust into rural development and urban development, the poverty focus of the institution, the desire to be more effective as a development institution. And they sensed his genuine sympathy for the plight of the developing world and his championship of their issues. They liked the way he handled the staff in his relationships with the Board, the fact that he would never show up somebody in public. Indeed, in the President's Council he was quite careful to respect individuals and he would not show up somebody. If you made a dumb remark he would just let it pass in silence rather than humiliate you in public. I think staff respected that. But in the end they felt that he did not consult their advice, that he knew what he wanted to do. There was this information up, decision down process which they objected to. They did not feel they were really being consulted in the decisionmaking process, they were just data gatherers.

OLIVER: I'm told there was a time during McNamara's presidency when staff presented some sort of petition to him setting forth alleged grievances of some kind. He was greatly surprised.

BAUM: That's right, he was not good at handling staff. He thought that because he was right he would command everybody's support. And he thought this about everything. I remember his saying once, and I was amazed at the naivete, if you will, but he said if he were given a half hour in private with any Congressman in the United States, he could convince him of the importance of supporting the World Bank. He was so convinced of the merits of his own logic and so convinced of his powers of persuasion that he couldn't believe that some people just wouldn't listen or wouldn't be affected by him. And I think he also tended, to some extent, to believe that because he was always right that the end justified the means.
I think he really ran afoul of staff when salary issues came to the forefront, because the United States Government was critical of the high level of Bank salaries. The majority of the staff, who were not Americans, felt that McNamara was prepared to sacrifice their interests in order to placate the American Government to get the support which McNamara needed for the lending program. The most serious issue for the staff certainly was compensation, where staff felt that McNamara was prepared to sell their position short in the interest of harmony with the United States. One can debate this question endlessly and there's no doubt that Bank staff salaries are generous, but on the other hand they are much more generous for American staff than non-American staff, there were policies and procedures for establishing what these salaries should be, and staff felt that these should be respected.

OLIVER: We've been talking great deal about Presidents and management styles. I think we've not talked enough about Warren Baum and his personal career in the Bank. I wonder if you would think back over your long and illustrious career and cite some projects that you participated in that stand out in your memory.

BAUM: Let me, before I say a little about that, finish a point which I started.

OLIVER: I'm sorry.

BAUM: I said I thought Clausen made three mistakes at the beginning. One was on the Managing Committee, the other was on relations with the Board, the third was on relations with the staff. That relates to what we've been discussing.

OLIVER: I beg your pardon.

BAUM: There was no union at the Bank of America. He couldn't believe that there was a Staff Association in the World Bank and that professional staff could be organized against the Management of the institution. He thought this was wrong; he thought it was unacceptable, and that he could get around it. And one of the ways which he tried to get around it was by calling himself "staff." You may notice that all the communications he sent to the staff throughout his five years of presidency said, "Dear Fellow Staff Member." He tried to break down the distinction between Management and staff. But staff were not deceived by this device and they knew he did not accept the idea of a Staff
Association. This reinforced the strength of the Staff Association in its dealings with Management because staff felt that the Management was torn between support of staff and a need to maintain good relations with the shareholders, particularly the United States. This was legitimate tension, again, but it meant that staff concerns had to be independently expressed, they couldn't be subsumed under Management concerns. And I don't think Clausen's relations with staff ever were very happy. In the beginning he tried to meet with staff, he tried to appear very affable and congenial. He was much more accessible to staff than McNamara ever had been, but in time I don't think that this weighed heavily on the scales against the other elements of his management style.

OLIVER: Now I'd like to ask about your own personal career.

BAUM: Right. I always thought of economics as the "dismal science." And although I was a professional economist with a Ph.D. degree and joined the Bank as an economist, I was happy to get out of economics and into operational work that suited my temperament much more. I found also that the real substance of operational work was on the project side, that a good project officer could get involved in the loan side of the operation, but a good loan officer had a lot more trouble mastering project details. So I felt that the real substance of the Bank work was going on on the project side and I was happy to join the Projects Department and become a part of its management—to be presiding over it as Vice President, Projects Staff during the time that project lending expanded most rapidly under McNamara and enjoyed a great deal of support from him.

It was fun being involved in individual project operations. I feel satisfied with the work that I did on Spanish railways, which was path-breaking in the sense that this was the first time that we tried to put a project in the context of the whole transportation sector of a country, and to deal comprehensively with transport policies, to take a bankrupt railroad and make it a modern, efficient enterprise. I recall that we had something like 240 individual recommendations with respect to how the railway should be managed. I think that was something which I got a great deal of satisfaction out of. I guess the only other two points I would make, that if I were to write my own epitaph, if you will, eulogy, whatever, in the Bank—and I'm sure no one else would write it this way—what I would want to stress is the emphasis which I put on the quality of the Bank's operations. I would like to think that convincing
the Projects Department staff that they had to do their work well was the thing which I emphasized most, trying to preserve and enhance the integrity of Bank operations during this period of rapid expansion and continuing tension. This is the thing at least which I put most emphasis on. The one complement which I received which I remember best, was one that was relayed to me at third hand by a friend who had happened to overhear two Projects Department people who were appraising a project in the field—this was while I was in the Projects Department and reviewing all projects centrally. One said: "We'd better get it right because if we don't Baum will never approve it." And that at least was what I would have liked people to have thought was the standard of quality that the Management of the Bank insisted on. I did not introduce this; Aldewereld and Chadenet were very strong on project quality from the beginning. I simply continued that tradition and tried to protect and enhance it in a period of evolution and flux and expansion during the McNamara era.

OLIVER: I take it you found it no handicap that you were not an engineer?

BAUM: Well, I was always aware of this as a shortcoming and I tried to make sure I had engineering inputs. But I think the reason I got into the Projects Department in the first place was that when I was a loan officer, but getting more and more involved in these projects because I accompanied the missions, I became impatient because I thought the engineers were not asking the right questions, were not dealing with the project in the right way. When I joined the Transportation Division—I used to say that being head of the Transportation Division was the only job in the Division which I could have filled. I didn't have the skills to be a transport economist or financial analyst or engineer, but I hope I had some of the skills to get the best out of them and to see that they addressed the right questions in the right way and came up with plausible answers. And that was the function which I tried to fill at successive levels.

OLIVER: You said earlier that you thought it was interesting, perhaps even fun, in the case of Spain to be able to think about an individual transportation project in terms of the entire transportation sector. I should have thought that being an economist would be of considerable help in thinking of that relationship.
BAUM: Perhaps it was. I'll cite a specific example which shows how far the Bank has come. One of the innovations which I introduced when I was in charge of transportation was a covenant in highway projects: that the borrower had to maintain adequately the entire highway system in the country as a condition for a Bank loan just for a highway, let's say, between two cities. Before then, what we used to require was that the borrower would maintain just the part that we had financed; they had no responsibility for maintaining the rest of the highway network. Well, this would mean that if there were not enough funds they would maintain our highway but they would not maintain the rest of the highway system and we would therefore be penalizing the rest of the highway system as a condition for making a Bank loan. It made no sense to favor our project at the expense of the rest of the highways of the country. So we introduced a covenant that they have to maintain the entire highway system.

This turned out to be extremely controversial. I remember the dean of the Board, [Pieter] Lieftinck, who included Yugoslavia in his parish, being incensed when the Yugoslavs complained to him about this requirement, and coming storming into my office and insisting we remove the covenant. Well, we didn't. What we learned, in fact, in the end was that the covenant was necessary but it wasn't sufficient; that you not only had to have that covenant but you had to define the maintenance objective in specific financial terms and you probably had to strengthen the highway maintenance department and maybe have specific loans for highway maintenance in order to enable the department to have the resources and the capacity to maintain adequately the highway system. But it shows how far the concept of what's appropriate in the context of a highway project has evolved from just maintaining one road to maintaining the highway system of the country and making loans and projects to support that highway maintenance organization.

I think the broadening of the whole project approach to include institutions, and management, and policies, and the whole economic framework within which the project operated has been a very important evolution which I certainly am not responsible for but which I participated actively in throughout my involvement in projects.

But the thing which I enjoyed most--maybe you want to ask a question on that?
OLIVER: I'll ask a question, and maybe it's what you were going to say anyhow. One point you made in your book—i've just reminded myself the title is *Investing In Development*—is that there's no point in trying to order projects from different sectors in an economy on the basis of benefit cost ratios because the sectors are not substitutes for each other. I wonder if that's a point that isn't worth elaborating some.

BAUM: Well it's true. This is something that we had some time convincing McNamara and the Board about—that cost-benefit analysis can be done in some sectors and not in other sectors. We have never developed a technique for cost-benefit analysis, in education for example, which we believe is analytically sound. But beyond that, even in the sectors where cost-benefit can be measured, it means different things in the competitive sectors, such as industry and agriculture, as distinct from the monopolistic sectors, such as transportation and power. The rate of return has a different meaning in a public utility project than it does in an agriculture project, for example. This is a point which we've had a great deal of difficulty in conveying to our Board and sometimes to McNamara. In spite of his intelligence, he put great store on the economic rate of return because it was a quantitative measure which he could point to and point to with pride. And he wasn't happy when I would sometimes deflate this by pointing out to the Board that a high rate of return on a project usually meant one of several things, none of them necessarily good. One, we were building on a lot of work which had been done by others. One reason why we had high rates of returns on agriculture projects in West Africa, for example, was we were building on an infrastructure investment which the French had already put in place. Had that infrastructure not existed, our rates of return would have been very much lower. So in that sense we were not capturing within the project all of the costs which were part of the rate of return.

OLIVER: Very similar projects in West Africa would lead to different rates of return from East Africa?

BAUM: If we'd had to build the project from nothing, it would have come have come out entirely differently. That's one reason for high economic rates of return. Another may be that the project is too late. If you wait to build a highway until the existing road is very congested, or to expand a port until congestion is very high, you get a very high rate of return. That means that somebody has made a mistake because that investment should have been made sooner. So high returns often mean bad
[BAUM]

Project analysis in the first place, projects which have been excessively delayed. In an ideal world the rate of return on projects would equate with the opportunity cost of capital with a discount for the risk of the project; such returns would be quite low and nothing like the returns which we've gotten on a lot of projects.

OLIVER: If you can't depend on rates of return for ordering projects, how would you go about ordering projects?

BAUM: Educated judgments. That's the best you can do. Try to get enough information to buttress those judgments. What we say in the book is that a country has to make its own decisions on the priorities between, let's say, housing and education and health. But the data which they need to make that decision on the health side, about the incidence of disease, the level of infant mortality, the level of population growth; on the housing side, how many people are ill-housed, what's the housing stock, how rapidly is it depreciating, how bad is the housing problem? On the education side, what's the level of illiteracy, how many people are in primary schools, how many of them repeating? By asking the right questions and collecting the right data you get a sense of the areas which are least well served. And the government can only make changes at the margin anyhow because most of its funds are already committed; and in making changes at the margin you have to be guided by which parts of society seem to be suffering the most, and where investments would be the most productive.

OLIVER: Were you happy to deal with countries having, as many socialist countries tend to do, relatively detailed five-year plans, or three-year plans, or whatever in which they thought they knew the order in which they ought to put in projects? Or was that a handicap?

BAUM: Well, we found that most of the comprehensive plans that you're describing were ill-designed. Most planning authorities did not have the data and the administrative capacity to put together a meaningful plan at that level of input-output analysis and detailed projections of all investments. Something much more modest and less ambitious was all that they could reasonably hope to accomplish. What we tried to do for the most part in our reviews of investment plans and in project identification and selection was to get rid of the worst projects in the program and to encourage the
government to carry out the ones which appeared to be the most productive, but not to suggest we had a rational method for ordering all the investment program.

OLIVER: From the beginning of the Bank there has been controversy, if that's the right word, between people oriented toward macroeconomic issues on the one hand, and people oriented to internal rate of return analyses of individual projects, the charge being made at the extreme that when the Bank finances a project that would have been financed anyhow, all this does is free local funds for a project which is perhaps not worth doing. What is your standard response to this.

BAUM: Well it is a standard response because I've heard the argument so often and have so little sympathy with it. I have a lot of respect for a lot of macroeconomists in the Bank and outside it, but I think the fungibility argument is a red herring—if I can mix my metaphors. It reflects lack of understanding of what the Bank does. The projects which we finance are simply not projects picked out of an investment program, and our financing is not simply substituted for other financing of those projects; the projects, when we have completed our association with them, are very different types of projects than they would have been had the Bank not been involved. We make a contribution through our work with the borrower on that project which is unique and which changes its whole character. And so we're not substituting for other funds, we are changing the character of the investment program. Not only do we change the project, but increasingly we review the investment program as a whole. We try to get rid of the white elephants, the low priority projects. So in that sense, even if resources were fungible, they're fungible across an investment program which we have helped to make better than would have been the case had we not been involved in it.

OLIVER: Well, do you view with any alarm the increasing emphasis on so-called structural adjustment loans which come relatively close to being what used to be called balance of payment loans 25 years ago?

BAUM: I think that they're necessary and I have supported them from the beginning. From a project vantage point, we recognized that our projects were going sour in country after country because of the macroeconomic situation of the countries. When a country is short of funds and it slashes its budget,
it slashes funds for all of its ongoing projects and it cuts its new projects.

So we found that we couldn't do project work effectively, including executing the existing portfolio of projects, in a number of countries which were suffering from the debt crisis. Therefore improving the macroeconomic framework was a prerequisite to doing effective project work. In this sense I think structural adjustment lending, and sector adjustment lending are complementary to and prerequisites of project lending.

I would make two other comments: one is that it's very difficult to do structural adjustment lending well and to find countries which are prepared to stay the course. The danger is that there will be a temptation not to do it well, or else we'll find we can't sustain the high level of lending and help the countries whom we would like to help but which may not be prepared to accept the degree of conditionality which we think is essential to accomplish that. And if you consider that we've been working in Mexico for four years now to try and work out and sustain an adjustment program, you realize how difficult it is to accomplish this and how controversial our role can be.

My other concern is that we not focus so heavily on structural adjustment lending that the signals within the Bank get distorted, that people feel that this is where the resources and the rewards are and that they begin not to give enough attention to project work which after all is and will continue to be the predominant form of Bank lending for the foreseeable future.

OLIVER: But what you're saying is that it doesn't make any sense for a country to have to stop a project two-thirds of the way toward completion because of a temporary balance of payments situation. That is hardly desirable from a project point of view.

BAUM: Well it may not be desirable but it may be inevitable.

OLIVER: Unless there are structural adjustment loans or more general loans than financing yet other projects.
BAUM: The countries have got to grow out of the debt crisis before they will generate enough resources to maintain their existing projects and to have a reasonable portfolio of new projects. So in that sense we've got to help the heavily indebted countries get back on the growth path before we can continue to do successful project lending in them.

OLIVER: In the case of classic current debtor countries, was there a problem, in some sense a breakdown, if that's not too strong a word, of the Bank's previous emphasis upon creditworthiness? Or was it something else?

BAUM: Well, it certainly was a radical change in the extent of creditworthiness in a relatively short space of time. I think it caught the Bank to some extent by surprise but it caught everyone else by surprise, too. None of us was aware of the extent of commercial bank indebtedness which these countries had engaged in. They didn't know it themselves until all the creditors started presenting their bills at the same time and we all realized how large the debt problem had become.

OLIVER: They needed to file for Chapter 11 bankruptcy.

BAUM: Without having that option, unfortunately.

OLIVER: Without having that option. Were you aware of a proposal in the 1960s called the Supplementary Finance Proposal which came out of Irving Friedman's part of the Bank?

BAUM: Only very vaguely. Maybe you can refresh my memory.

OLIVER: Well, it was a proposal that came originally from UNCTAD. If put into practice, which it was not, the Bank would have worked with a country to develop a five-year development program which included a certain amount of Bank lending for project purposes. But it also included the conditionality proviso that if the government would agree to follow certain general macroeconomic policies that the Bank thought desirable, the Bank in turn would agree to fund shortfalls that resulted from a temporary decline in export earnings. This seems to me to come fairly close to the modern concepts of sectoral or structural adjustment lending.
BAUM: Well actually the Mexican loan which was just signed, yesterday, I think, was the first one which really matches that very closely. There is explicit recognition that there's a shortfall in earnings because of a decline in the price of oil that there will be stepped up external assistance to compensate for it. I think Friedman was well in advance of his time in suggesting that this was something which was feasible in the 1960s. I think our understanding of the development process and our relations with our borrowing countries would not have supported that kind of a dialogue at all.

OLIVER: It was not strongly supported by the staff at the time, but I think it was an interesting early proposal that may have been well ahead of its time.

Well, are there any questions that I should have asked you in this long and very interesting conversation that I haven't asked.

BAUM: No, but there's one answer which I didn't finish which I would like to. You were asking me about some of the things which I've done in the Bank. And the thing which I've enjoyed most is something which we haven't talked about at all because it's outside of the regular operations complex. That is, serving as Chairman of the Consultative Group on International Agricultural Research. That is an operation which I think the Bank can be justifiably proud of its association with. The Bank under McNamara brought the Consultative Group into being, although its initial purpose was to finance research centers which predated the Consultative Group and which had been founded and fostered by the Ford and Rockefeller Foundations. But what has appealed to me has been that it's removed from the Bank bureaucracy, so I've had a great deal of freedom as Chairman to work without having to report to a Bank hierarchy. But also it's research organizations work on a very specific set of problems, developing research and transferring it to developing countries. There is a first-class group of scientists in the research centers around the world which are part of the Consultative Group, so that being Chairman for 10 years of its 15 year life, having gotten in almost at the beginning of it, having seen it through a period of great expansion and growth has been for me professionally the most rewarding thing which I have done.

OLIVER: Is that the group that Harold Graves was associated with?
BAUM: He was the Executive Secretary virtually at the beginning of it. He served for several years in that capacity.

OLIVER: Maybe you would add just a paragraph or so more about why you think it is important.

BAUM: Well, the original centers, the Rice Research Institute in the Philippines and the Corn and Wheat Research Institute in Mexico, were the founding fathers of the Green Revolution. They developed the so-called miracle rice and wheat varieties which were adapted and adopted in Mexico, India, Pakistan, the Philippines and so forth, and which touched off the Green Revolution. In a sense, the group has taken that technology, which is really a device for germ plasm experimentation, and done it now on a much larger scale with different crops, different varieties and different ecological parts of the world. It has had nothing quite as spectacular as the IR-8 rice and the Mexipac wheats which were the progenitors of the Green Revolution, but it has helped strengthen agriculture research around the world and has brought new varieties into production in developing countries, which are really revolutionizing their agriculture.

OLIVER: I think the agriculture revolution has not yet extended very far into Africa, if at all. Would you comment on that?

BAUM: That's correct, even though now the Consultative Group is devoting 40 percent of its resources to Africa. But Africa has been pretty much bypassed by the Green Revolution. It's largely because of the very serious agricultural problems in Africa which are different—not so much different in degree, they're different in kind from those in Asia or other parts of the world: weak institutions, bad soils, difficult climatic conditions, everything has been more difficult in Africa and it's meant that the pace of agriculture development has been much slower, including progress on the research front.

Finally, to complete the story of my "career," I've had the unique experience of being given, in effect a four-year sabbatical to write two books on the work of the Bank with which I have been closely associated. One, which you've mentioned, is *Investing in Development: Lessons of World Bank Experience*, which has been translated into French, Spanish, Chinese and Japanese editions. The other is *Partners Against Hunger*, which is the story of the Consultative Group for International Agricultural Research.
OLIVER: Well, sir, you certainly have answered a lot of questions and I think it's a most interesting conversation that we've had today. I thank you ever so much for your time.

BAUM: My pleasure.