The World Bank/IFC Archives

Oral History Program

Transcript of interview with

RICHARD H. DEMUTH

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Dick, before coming to the World Bank you were graduated summa cum laude from Princeton University and magna cum laude from the Harvard Law School. You had been in private law practice and you had held responsible positions with the US government, both at home and abroad. In 1961, by which time you had been with the Bank for fifteen years, you became one of a small number of officials interviewed by Robert Oliver for the Oral History Research Office of Columbia University. I've read the transcripts of all of those interviews, and yours was outstandingly informative and insightful. I commend it to anyone interested in understanding those early crucial years of the World Bank.

Today I would like to concentrate primarily on the period since 1961. Let me preface my first question, however, with a reminder of a few of the many matters that were discussed in your interesting 1961 interview, namely: how you happened to become an employee of the Bank and an assistant to its first President, Eugene Meyer; Mr. Meyer's brief tenure and unexpectedly sudden departure; the tense interregnum between his resignation and the arrival of McCloy, Garner and Black; the change in relations between President and Board of Directors after McCloy's arrival; the further evolution of those relations after his departure in 1949; the problems encountered when the Bank tried to make its initial loans and raise the funds with which to make them; the major reorganization of the staff that occurred in 1952; the early country survey missions and the part you played in developing that facet of the Bank's work; the key roles you played also in the establishment and evolution of the Bank's relations with the United Nations and other international agencies; in
organizing and coordinating the Bank's technical assistance work; in creating the Economic Development Institute and the Bank's two major affiliates, the International Finance Corporation and the International Development Association; and in conceptualizing and supporting Bank assistance for what were first known as development banks and were later called development finance companies. That same interview sheds light also on the personal idiosyncrasies of the first generation of Bank leaders, and the personality conflicts that seem to be inevitable concomitants of institutional growth and development.

At the time of your 1961 interview, Eugene Black was ending his thirteen-year reign as President of the Bank. My first question is, how would you characterize his last year or two in office?

DEMUTH: Well, without wanting to detract in any way from the magnificent contributions which Gene Black made to the Bank, I would say they were mostly made in the first ten or eleven years of his tenure. In the last couple of years he was inclined to just go along on the momentum that the Bank had achieved. He left a lot of rather difficult questions unsolved by simply not addressing them. He also spent a lot of time in New York rather than in Washington, and I think the Bank was at that time just sort of floating along, waiting for a new initiative from a new President.

ASHER: Would you care to spell out those things, or do you want to make them part of what, in effect, is my next question, the legacy which George Woods inherited from Eugene Black, and how to describe in somewhat general terms the five-year reign of George Woods? We can go into more specifics as we proceed.

DEMUTH: That covers quite a lot of territory. Gene's departure was regretted by the whole Bank staff. The Bank staff was terribly fond of Black. His relationship with the staff and with the Board was excellent, and it was a happy family, despite the fact that there were some unsolved problems. Many of us were afraid that when George Woods came in, since he was then already sixty and not in terribly good health—he'd had one heart attack, I
believe—he might come in just to cap his career without bringing any new initiatives. We couldn't have been more wrong. He came in full of vigor, and he wanted to change the Bank from Black's Bank to the World Bank of which George Woods was President.

Generally, the first half of Woods' tenure was a time of real decision making and very substantial new, and, in my judgment, good initiatives. Let me come back to that in a minute. The second half was a calamity. I don't suppose anybody will ever know all the factors that caused that change. I would attribute it personally to three things. One was his failure to handle the IDA Replenishment properly, and we'll come back to that, I believe. Second was his belief that he could tell the Indian government how to run its economy, and when the Indian government followed some of his advice and fell flat on its face, this sort of undermined George's confidence. And then he got into very serious conflicts with his Board, and I think the three things combined undermined his confidence, undermined it to such an extent that I remember at one point he put a stop to all Bank lending. He was afraid the Bank wouldn't get repaid and that it would go bankrupt, and he said we won't make any more loans for the time being, which was a rather remarkable step for a President to take.

ASHER: Especially as he started with a big surplus, didn't he?

DEMUTH: There was a substantial surplus, sure. But I think that, again, was probably a reflection of the fact that India was in trouble and hadn't gotten out of it by following his prescription.

Let me get back to the first half of Woods' tenure, because there were really some remarkably good decisions then. For the first time, I believe, the Bank went into lending for agricultural production. Now, it had made what it had called agricultural loans before in the form of irrigation and land clearing, things that involved heavy equipment, cement, mortar, and things you could see, but it had never gone into the field of trying to get crops produced. When George decided we ought to make loans for agricultural
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production, he asked me to head a committee to develop appropriate guidelines for such lending. I in turn asked the head of the Agriculture Department, Jim Evans, to come up and talk to me. When I told Evans what George had decided, his normally dour face burst out into a smile a mile wide. He said that's what the members of the Agriculture Department had been wanting to do for ten years, and had been held back from doing. This will make all the difference in what the Bank can do in the field of agriculture.

Similarly, Woods led the Bank into the field of educational financing. He had a hangup there about university education. We couldn't make loans for university education because he'd been on some university boards and he'd seen how they moved monies around from one program to another. He feared that Bank financing of a specific university activity might in effect be used for an entirely different purpose. He was convinced, therefore, that the Bank, at least initially, should confine itself principally to secondary education. But, nonetheless, we did make a start on educational financing, which has subsequently become substantial.

Woods also initiated financing for tourism. That has, I think, been stopped since I left the Bank, but at that time, for a lot of countries, it meant a great deal of foreign exchange, and was a very useful form of financing.

If my recollection is right—you're taking me back twenty, twenty-five years—Woods also was responsible for the first Bank loan to IFC, which is really what brought IFC out of its very subordinate position, where it only had a hundred million dollars and was using that as though it was all the money it was ever going to get. George decided that the capital and surplus of IFC could be used as an equity base for a World Bank loan of four times that amount. And this finally gave IFC sufficient money to really make a dent in the private sector of the developing countries.
I think I'm right in saying that Woods also threw overboard the prohibition that we'd had on Bank lending to government-owned industries and to government-owned development banks. That was a policy that Gene had insisted on, and with some reason, because there were other sources of finance that could make those loans, and a great many of the government-owned development banks and government-owned industries were not very well-run. Gene took the position that we might as well pick out the well-run development banks and the well-run industries and leave the others for US AID or whatever its predecessor was at that time. This meant that in a number of countries we couldn't do very much for industry, and George decided—I think it was George that decided—that we would make loans to government-owned industries and government-owned development banks if they were well-run. This enabled us to do a great deal more in the whole field of industry than we had been doing.

Under George we also got into much more cofinancing with other sources of development finance, alongside of Bank financing. I sometimes read the speeches of the present President on cofinancing as though it was a brand new idea, but it was something that certainly was in full swing before I left the Bank eleven years ago. I think this was also a very substantial contribution.

There is one other thing that is important. Dave Bell was then the director of the AID—Agency for International Development—and he took the lead in saying that he thought that there ought to be a great deal more coordination of aid from different sources going into individual countries, and that he thought that the Bank, as the leading international development financing agency, should take an active role in providing that coordination. This was the spark that led eventually to the creation of consultative groups for a large number of individual countries bringing together the various donors for discussions with the government officials, seeking agreement on the country's priority needs, evaluating the government's past and future plans, determining the amount of external financing needed to carry out the country's development program, and assuring that there was no overlapping financing.
ASHER: Was Woods' enthusiasm, or acceptance of this notion shared widely within the Bank, or was there some uneasiness about what would happen to the Bank in terms of possible compromising of its own integrity by being involved in the coordination of a group?

DEMUTH: I don't think I can answer that. The Bank had had some experience with consortia which it had organized for India and Pakistan, and with an OECD-led consortium for Turkey, and I think there were one or two consultative groups as well. I'm sure the Bank staff had mixed feelings about it. It involved a great deal more work, but it also involved a great deal more influence on the part of the Bank, because its economic reports were the basis on which the consultative groups acted. If there was much opposition in the Bank staff it rapidly disappeared.

ASHER: Well, as compared with McCloy and Black, Woods also took a much more forthcoming attitude toward cooperation with the rest of the UN family, didn't he, and that had some important consequences.

DEMUTH: This is something that I think has been somewhat underplayed in judging Woods' tenure. He came in, and he saw that, for the developing countries, the Bank was the leading agricultural financing agency, or was going to become that, and was an important educational financing agency, or was going to become that. There were international agencies in these fields; how could we operate independently of them? It didn't make sense to him, as a person looking at the system from the outside. He had unanimous staff opposition to the suggestion that we should work more closely with UNESCO and FAO, including, I must confess, my own, because I had seen how ineffective both those institutions could be. But George insisted, and in the end we figured out what was necessary in order to make these organizations effective in our aspect of their business, which was to set up--again something that is organizationally difficult to justify, but I think was necessary--to set up an elite group within each of those organizations, the Bank paying for three-quarters of the expenses and salaries of that group, and having a say as to who was head of it and who was assigned to it, as well as the program of
work the group was to undertake. So that instead of relying on the organizations as a whole, we had a cooperative program that really involved a group of people that was an extension of our own Education and Agriculture Divisions in our then Projects Department. And as it turned out, those groups I think were probably as good as, or maybe even better than, the groups that we had collected. We had a number of difficulties, obviously, in negotiating that agreement, because it was a hard thing organizationally for the Directors-General of the two organizations to accept.

Asher: It was a kind of junior partnership for them.

Demuth: We tried to make it very clear that even though we were paying three-quarters of the money and having a veto on who was assigned, we meant it as a mutual partnership. I remember one time FAO's Director General, Ad Boerma—no I guess it was Maheu of UNESCO—said he wanted to pay half rather than a quarter of the cost of the joint program because he didn't want a junior partnership arrangement. We said we didn't mean that. We didn't want the division of the cost to reflect the division of authority, but rather, we had the money to do this, he had a restricted budget, and this is something we wanted done. He finally accepted our statements that we did want it as a mutual partnership, and it worked that way. Although we had lots of little troubles, the groups had a real impact in developing projects, doing feasibility studies on projects and advising the Bank on where it could best invest its money for education and agriculture in various countries. As the Director-General of FAO said, and he went ahead with this against the opposition of his deputy and almost his entire staff, but he said that finally we've got a banker, and that's what we need, that's what we've been missing. At least, for the time that I was aware of it, these arrangements worked very well.

Asher: You indicated that George Woods had the courage to go against the unanimous recommendation of his staff. If my memory serves me correctly, the President's Council, on which you served from its establishment up until the
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time you left the Bank, was established by Woods. Was this an effort to
democratize the management in any way? What was the purpose of it, and how
effective a group was it?

DEMUTH: Well the President's Council was a much needed broadening of the top
management of the Bank. The Bank had gotten to be a very large, important
financial institution, and the top management consisted of just the President
and three Vice Presidents. Woods felt, and I think there was general
agreement, that there needed to be a broadening of that management. We didn't
want to create a great many new Vice Presidents, because for every one you
create you make one person happy and three people unhappy. So, what he did is
to create this Council as a top management group, and it was a very
influential group during the time that it met. It was the executive
committee, in effect, of the staff.

ASHER: And he treated his senior officials as senior officials, and as
coequals at that level?

DEMUTH: Well, when you come to the question of how George treated people,
that's a different story. He came from a background of private enterprise,
where apparently competitiveness is a way of life, and there is a certain
amount of dog-eat-dog. There was antagonism between George and almost
everybody on the staff. He would talk to me as though I was his closest
intimate, and run down the five other members of the President's Council. So
I was sure that as he was talking to the others he was running me down with
them. I don't know where this particular trait came from, but there were very
rough relationships between George and Geoffrey Wilson, Vice President, and
Geoffrey left. Between even George and Burke Knapp, who was the linchpin of
the staff at that point, and who knew more about the Bank's business than
anybody, for a year or two there was a very rough relationship. Finally, I
think, it smoothed out and worked well. Woods, for example, was very
antagonistic toward Arthur Karasz, who was head of the Paris Office. As a
result, he wouldn't have anything to do with the Paris Office. He went to
Paris frequently, but he wouldn't put his foot inside of the Paris Office. He
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at one time left me off outside of the Paris Office, and I said, "Come in and look at it," and he said, "No, I won't go in." There were quirks like that that made life rather difficult. He also got into many arguments with the Board, not really so much on policy issues or what he wanted to do, but on personality issues, and the Board meetings, instead of being love affairs, as they had been under Gene, became contests between the different Directors and the President, so that it was really a very difficult period.

Let me get in to one thing I mentioned before, which is the IDA Replenishment, because this was really one of the things I think that hurt George.

ASHER: This was the Second Replenishment, I think. The first one went through fairly smoothly. The second one took three years, as I recall it.

DEMUTH: Well, the difficulty was that George really didn't know how to negotiate international agreements. Instead of calling a meeting of the donors and saying, in effect, what is it that you wish IDA to do, he went after one government after another as though he was fighting a battle. He first talked to the U.S. government. Then, when he didn't get far with the U.S. government in obtaining agreement on the size of the IDA Replenishment he had proposed, he decided that Germany was the next most important, and the most important man in Germany for this purpose was Mr. X. So he went after Mr. X, without approaching the government, without realizing that high officials always rely on their staffs, and that the staffs are going to feel hurt when there is a run around them. George was constantly trying to run around them. And he went after one government after another, sort of telling each what the other did, and got nowhere. Finally, it became so bad that George delegated the job to Burke (J. Burke Knapp, Vice President), who immediately called a meeting of representatives of donor governments, and thereafter there was a regular series of meetings at which agreement was hammered out without too much acrimony or difficulty. I think that George's private sector experience, where he apparently often had to go after the
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jugular of somebody in another company that his client was trying to acquire or trying to sell, was not a very appropriate background for the kind of intergovernmental negotiations involved in the IDA Replenishment exercise.

ASHER: What you're saying is not only that it was unfortunate in terms of Woods' personal relations, but that it also dragged out the negotiations for a long time, and ended up with an amount much smaller than Woods wanted, but nevertheless an increase in IDA that probably, if I understand you, is something that you think could have been gotten earlier, with more skillful negotiating.

DEMUTH: Oh, it could have been gotten a year earlier. It wasn't any real problem. I see from a paper here that the Replenishment was $1.4 billion, and the First Replenishment was $900 million. It was an increase of almost 50 percent, and $1.4 billion is not anything that should be sneezed at. I should make clear that the First Replenishment, as I recall it, was for a five-year period, and the Second Replenishment was for a three-year period, so that while it went up from $900 million to a $1.4 billion, per year it went up more than that. And for a new organization, this seemed to me at the time to be a very satisfactory outcome, but it could have been reached a couple of years earlier.

ASHER: While we're on IDA, George Woods introduced the policy of transferring a portion of the Bank's surplus to IDA. A lay reader of the Bank's Articles of Agreement, with knowledge that the Bank had chosen to make a loan to IFC rather than a grant, might find it somewhat surprising that the surplus wasn't distributed as contemplated, I think, in the Articles of Agreement, as dividends to shareholders. Do you recall whether the action to make the grant required more than routine consultation with governments, and, if so, how those consultations were carried out, and whether they raised any eyebrows in the financial community, as Woods' predecessor, Black, feared that such a tie-up might induce?
DEMUTH: Bob, let me correct one thing you said. What Woods introduced was transferring a portion of the Bank's net income to IDA rather than to surplus. It didn't go into surplus and then get transferred; instead of adding to the surplus, or declaring dividends, a portion of it was given to IDA. Now that did not raise that many eyebrows either in the Board or outside, because nobody wanted to have to declare dividends. I mean, if you had to declare dividends, the US would have gotten 40 percent, and the U.K. would have gotten whatever it ...

ASHER: And they would have been asked to contribute it back anyhow.

DEMUTH: Exactly. The U.S. and the other donor countries didn't want dividends particularly, and certainly the recipient countries didn't want those dividends to go out. So the dividend question had been decided long before, when the decision had been made to put all income into surplus, rather than to declare dividends. Now the question was, could some of it be given to IDA and lent on IDA terms, rather than go into surplus and add to the resources of the Bank. And since I think what we gave to IDA at that point was a $100 million out of a multiple of that in net income, as far as I know it did not raise any eyebrows in the financial community.

ASHER: George Woods appeared to see a greater role for economists at the Bank than did his predecessors, and his efforts to give economists more prominence and status included bringing in Irving Friedman from the Fund and giving him the exalted title of The Economic Advisor to the President. Would you care to comment on Woods' attitude toward economists as an integral part of the Bank's staff activities, operational activities, and on the problems, if any, caused by his specific choice of the person who became The Economic Advisor?

DEMUTH: Well, Woods, I think, recognized that under his predecessors the economists had not played the role in the Bank that they should have. After all, the economic development objective of the Bank is something that can benefit from, and indeed requires, the input of the best economists one can
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got. I think one can argue as to whether the economic staff should have been an elite, outstanding small staff, or a large quantity of good but not outstanding people. But in any event, the economists before Woods' time did not play as much of a role as I think they should have. So in that respect I think also he added very substantially.

Woods wanted his own man to be in charge of the economic work, and I think probably Andy Overby, who was an associate of Woods from First Boston Corporation and had been the Deputy Managing Director of the Fund, recommended Irving Friedman to him. I think Woods would have been well-advised had he consulted some of the top people in the Fund as to the appointment, because in fact, as it turned out, the Fund was very relieved that the Bank decided to take Irving over in a senior position. Irving's got a lot of assets, but one of his liabilities is that he wants his own turf. He came to see me shortly after he was appointed and said that in all his positions he's always delineated a certain territory that was his and nobody else's, and he intended to do the same thing in the Bank. I'm sure it was Irving, not George, who insisted on the title of The Economic Advisor, and this became sort of a laughable matter throughout the staff.

Irving came up with a proposal for a supplementary financing scheme in response to a debate in the U.N. about how to stabilize commodity export earnings. And the trouble was, that this is really a problem for the Fund, not for the Bank. But Irving found ...

ASHER: Having moved, found it more suitable for the Bank?

DEMUTH: That's right. And that this was the turf that he could occupy. He pushed this scheme against the opposition of everybody in the Bank except for Woods, and Woods plainly felt that this was a test of whether the man he'd picked was going to have influence or going to be shot down, and so he backed the supplementary financing scheme, even though everybody else was against it. Eventually, of course, nothing came of it, because it was recognized in
The U.N. circles, and generally, that this was a Fund matter, and that the compensatory financing facilities in the Fund would be duplicated by this supplementary financing scheme.

Asher: Actually, it seemed to me a pretty good study, and had it been done in the Fund in Irving's capacity as an economist at the Fund, it might have been acted on, or influenced the establishment of the compensatory financing facility earlier.

Demuth: I think that may well be true, yes.

Let me add that I think the Bank's gone overboard on the number of economists that it's hired, and the amount of economic research that it undertakes. Opening the door to this was really long overdue, and I think Woods deserves a lot of credit for that.

Asher: At some time during the first half of the 1960's, I don't know whether it was in Black's last days or in the early Woods days, you acquired a new title. You had been Director of a Technical Assistance and Liaison Staff. You became Director of the Development Services Department. Did that give you a different bundle of responsibilities, or was it simply a more manageable title, easier to type at the bottom of the letter, easier to carry in the Annual Reports of the Bank, and so on?

Demuth: Now this was done in Black's tenure, and it resulted from a proposal from Burke Knapp that I become his assistant. I didn't really want that, although I'm terribly fond of Burke and have a high admiration for him. I preferred to have certain departmental responsibilities that were mine, rather than being Burke's assistant. I had a long talk with Gene, and he agreed that the Department should stay as it was, but in the course of that talk it became clear that Technical Assistance and Liaison Staff, which my group had previously been called, was a misnomer, because at least half our time was spent working on new programs, new policies. It was a policy planning staff
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to a large extent. However, Black was always very hesitant about using the word "policy" in the title of a staff department, because he thought that would rile the Board.

ASHER: Maybe also the word "planning". It wasn't in great favor in the early ...

DEMUTH: I'm not sure. It was "policy" more, because he thought the Board was responsible for policy, and he thought, even if it were "policy planning", that this might rile the Board, so he asked me to come up with a new name. And since my group had such a hodge-podge of responsibilities, it seemed to me that it was desirable to come up with a name that didn't mean anything. And that's how the words "Development Services" came into being. It was not intended to mean anything particularly.

ASHER: And technical assistance continued to be a heavy component in the work of the Department ...

DEMUTH: That reminds me, when you talk about Woods' era, Woods once called me up to his office, and offered to create a new Department of Technical Assistance, which would have a large number of engineers and project people in it to work on technical assistance matters. And this would probably have been the second largest department in the Bank, after the Projects Department. I told Woods that I thought this was a very poor idea, that we had a whole group of projects specialists who could handle both technical assistance and project financing, and that we oughtn't to divorce the two functions, that it all ought to be in one department and left where it was. I said that I appreciated the offer, but I declined it. And Woods could never understand that. He said, here I was being offered a job that would give me the power of the second largest department in the Bank, and I declined it. From that time on, he looked at me askance. He just thought I was an idealist or something. But it was an indication of some of the attitudes that he brought over from the private enterprise world into the Bank.
ASHER: Well, this decision was in a way a kind of milestone in the history of the Bank's involvement in technical assistance, but what do you think of as other milestones in the evolution of the Bank's involvement, the broadening, the deepening of its involvement in technical assistance, which, judging from the last Annual Report, is still going on today?

DEMUTH: Well, I think there were two or three things. The first--I think I covered this in the 1961 tape--was the survey missions, where there was a great deal of opposition from the staff on the ground that if we recommended national programs, we were going to be under moral obligation to finance them. And Black, to his credit, said, fine, if they're good programs, and they're adopted, we should be under moral obligation, and I'm all for it. That was one milestone.

Second, a number of the divisions in the Projects Department understood that the projects that they were financing weren't going to be effective unless there was some training of people, unless there was some expatriate assistance, and so forth. This was particularly true, I remember, in the field of transportation. I at one time met with all the department heads in the Projects Department, and compared the amount of technical assistance that was involved in the loans that each of them gave, and there was an extraordinary variety. And a variety really because of the personality of the man in charge. And I think that meeting brought out, and certainly the heads of the Projects Department have supported, the view that we can't really be thoroughly effective in financing without technical assistance.

The third thing was the creation of the UNDP. We found for a long time in the Bank that the biggest constraint on our lending was the absence of projects, and that governments needed help in preparing projects. The UNDP, as a pre-financing institution, was set up to do that job. We were doing it too. Fortunately, instead of deciding to fight the UNDP, or compete with it, we decided that its creation would result in additional funds, additional resources, in an area of development that needed them. And so we supported the UNDP in every way we could. We provided UNDP with its first two or three
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...staff members on loan; we helped them draw up their rules and regulations, we reviewed all the requests that went to the UNDP, and advised them whether we thought that the projects to be studied would be financeable; and if the project proved to be viable, what we thought the priority of the request was, and so forth. A very close relationship existed and, as far as I'm aware, still exists between the Bank and the UNDP, stemming from those early days. Paul Hoffman, who was the first head of the UNDP, was very anxious to show that their work resulted in investment so he was very anxious to get the Bank involved, and we were anxious to get the projects well-prepared. We also acted, of course, as Executing Agency for a number of UNDP projects.

ASHER: So the interests dove-tailed rather nicely?

DEMUTH: Yes.

ASHER: In a much-quoted speech in Stockholm in 1967, George Woods called for the Grand Assize of the development effort that eventually resulted in the Pearson Commission report Partners in Development. What role did you play in monitoring that Assize, and in evaluating its recommendations?

DEMUTH: Well, I appeared before the Pearson Commission and testified, and then I did a fair amount of consulting with Ed Hamilton and Ernie Stern, who were the two principal staff people, but I wouldn't say I had much to do with the Pearson Commission report until it was filed. The President decided that the Bank ought to take the recommendations of the Pearson Commission report seriously, since there were a great many that were addressed to the Bank. And he asked me to coordinate a staff report on each of about forty or fifty recommendations that were directed to the Bank. We presented to the Board our view as to what the Bank's response should be to each of these recommendations. These responses were not written in my department for the most part, or at least the first draft wasn't. They were written by the appropriate substantive department in the Bank, and to a certain degree edited in my department, and we had some input into it.
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I don't think that the Pearson Commission's report, except for certain gimmicks that they had proposed, really came out with anything very new, except more of an emphasis on program loans. I think it did have some effect in increasing the pressure for program loans, and probably induced the Bank to go more in that direction than it might otherwise have done. I'm never wholly sure that program loans couldn't be dressed up as project loans as well, and in fact it probably resulted in our doing sector loans, which we called project loans, because they were for the transportation sector or the agricultural sector, and, to a large extent, had the same effect as program loans.

ASHER: Well, William Clark, in a recent interview for our Oral History Program, mentions his keen disappointment in the Bank's reaction to the Pearson Commission recommendations, and he refers also, and here I'm quoting, "to the somewhat negative reports" prepared by the Bank staff for the Executive Directors. He claims that his disappointment, and Barbara Ward's, led to those Williamsburg-Columbia University conferences which McNamara attended, and at which he first mentioned the poorest forty percent. Most of the conferees signed the so-called Columbia Declaration--all these things end with declarations--recommending that aid be focussed on the alleviation of absolute poverty. Is he deceiving himself about the Bank's reaction to the report?

DEMUTH: Well, don't forget that William Clark was responsible for putting together the Pearson Commission. He went to Canada and talked Pearson into accepting the job, and then he helped Pearson pick the rest of the members of the Commission, and, to a large extent, he was involved in the Commission report. I can't remember any memorandum prepared or approved by my staff on any of the recommendations of the Pearson Commission that was rejected by the Executive Directors or that even caused very much discussion by the Executive Directors. I don't think the Pearson Commission report really proposed very much, except doing more for development, and that, of course, everybody agreed with. They did come up with a few gimmicks like the Horowitz Plan, which I personally wrote the report on, because I didn't think it made much sense.
DEMUTH: That was interest-subsidization.

DEMUTH: Yes. I don't think the Bank had a negative view on the Pearson Commission report. I think on the whole it thought that the Pearson report was very useful in focussing attention on development assistance.

ASHER: Would you care to comment generally on the value of this kind of public relations exercise, its impact, and the justification for getting behind one of these efforts on the part of an institution such as the Bank?

DEMUTH: At various times various public relations devices are useful. I think at the time of the Pearson Commission that the Pearson Commission idea was a useful one as a public relations device. I don't think that it should have been taken much more seriously than that. And in fact I think that, if I remember correctly, most of the policies of the Bank were endorsed by the Pearson Commission. I can only remember one recommendation of the Pearson Commission on which I had a kind of acerbic debate with Ernie Stern, and that again was on a gimmicky sort of proposal.

ASHER: Ernie was interviewed in this more recent series of oral history interviews, and he indicated that he thought the Pearson Commission report had been considerably more influential on the Bank, particularly in the area you mentioned--program lending--than the Brandt report, which he thought had no influence whatsoever. And I wondered whether this was, in the one case, because Ernie was the number two man in preparing the Pearson report, and was just the recipient of the Brandt report's recommendations.

DEMUTH: I think that your intuition about this is the same as mine, but I have no way of gauging that.

ASHER: If my memory serves me correctly, the Young Professionals Program of the Bank was initiated with a major input from you. Can you tell us anything about that program, and its initiation and evolution?
DEMUTH: This is the program which I must say I am proudest of having introduced to the Bank of anything that I did while I was in the Bank. I found that in recruiting people, bright people, they had usually started a career somewhere, and they were afraid that if they came to the Bank and didn't like it, their chances for promotion in their existing industry or existing firm would be interfered with. They had usually put down roots in whatever their home country was, and didn't want to tear up those roots, or were reluctant to, and so it was very difficult to recruit people for the Bank of the calibre that we needed. And it struck me that if we recruited people right out of graduate school, or a few years out of graduate school, before they had put down roots elsewhere, we could teach them whatever was esoteric about development financing, they could get their training here, they would put down their roots here and we would have a group with an intelligence quotient of a very high order.

I got the management to agree that we would try this out with ten Junior Professionals, as we called them then, and I went around to a lot of graduate schools, in this country and elsewhere, to tell them about the program and try to induce them to get some of their best students to apply.

There was a good deal of opposition to this within the staff, particularly from the Technical Operations Department, previously the Projects Department, because they thought they needed mature people who had engineering or other technical experience; also from the legal Department, as a matter of fact. But the Bank decided to go ahead and that first group was ten people. Let me add that, in the proposal that I put forward to the management, I said that I hoped we would be able to keep 50 percent of the people that we recruited that way.

ASHER: Your proposal was put forward during whose presidency? Do you know, or ...

DEMUTH: I don't remember, I think this was Woods' presidency, but I'm not sure. I said that if we kept 50 percent of them, I thought we were doing very well, and we shouldn't be worried if we lost 50 percent.
There was another motive for this program, and that was to get more people from the developing countries, because the capable people in the developing countries had important jobs there, and we didn't feel that we should take them away from these countries. But if we got a few of their brighter students, they might be willing to come to us, and they wouldn't feel that they were letting their country down, because they would be working for a development agency. As it turned out, it was one of the best means of geographical diversification. Most of the Junior Professionals we recruited had had graduate education either in Europe or in North America, but they came from all over the world. I know at least two of that first class who are now Vice Presidents of the Bank. They moved up very rapidly. By the second year, Siem Alderwereld, the head of the Technical Operations Department, was crying for more Young Professionals...

ASHER: He'd been the focal point of the opposition?

DEMUTH: That's right. He found them so useful. At the present time—I'm not up to date on this—but I think the Bank is taking in something like sixty Young Professionals each year, and they're providing much of the core of the staff. I've said frequently that I wouldn't like to be competing on the staff of the Bank against the people they're getting now through that program, and less, much less than fifty percent have left the Bank. It's something in the neighborhood of ten or twenty per cent, and the remainder have stayed.

Just to lighten the conversation a little bit, I went up to Harvard to try to recruit some of the graduate students in the Economics Department up there, and met with a number of them. While I was in Cambridge I received a request to go over to the Business School, and I addressed the second-year students at the Business School, and told them what the Bank was, and what this program was, and opened the floor for questions. And the first question asked was, "Is it a firm policy of the Bank, as indicated by its recruitment of Mr. Black from the Chase Bank and Mr. Woods from the First Boston Corporation, always to go outside of its own staff for its President?"
ASHER: A Young Professional with an eye to the future ...

DEMUTH: That's right.

ASHER: During your last decade with the Bank, you were a member of the governing board of the International Institute for Educational Planning. That's not one of the best-publicized international institutes. But, how useful an institution is it, and how intimately related was its work to the educational aid and technical assistance for education furnished by the Bank?

DEMUTH: Well, let me say in response to that, that it came into existence because UNESCO came to us, and asked if we would put on a course in educational planning at the EDI, and we said we wouldn't do that, because we didn't know enough about educational planning, and the whole theory of EDI was to put on courses in which Bank staff were experts, and could provide an input. We thought that such an institute should be established and run by UNESCO. And, eventually it was.

ASHER: As an autonomous institute?

DEMUTH: It was established more or less like EDI, as an autonomous part of the UNESCO complex, and the Bank, if I remember correctly, did provide some financial assistance at the beginning. During the time that I was on the Board, I think it helped to systematize the thinking about educational planning, because in order to give courses, the faculty had to think through what they were teaching. Under Phil Coombs, who was, I believe, the first Director, subsequently under Torsten Husen of Sweden, who became, I believe, Chairman of the Board, they published some very interesting studies. Following Coombs, there was a French Director who was also was very good. So that I think the Institute made a contribution in those years to some of the thinking. The participants seemed to be enthusiastic about what they were learning. I left it at an early stage of its development, so I am not in a position to express a judgement on whether it's proved successful or not, or what the effect of the participants' training has been on educational planning in their countries.
ASHER: Toward the end of his term, George Woods got himself a new Director of Information for the Bank, and you inherited, as an Associate Director for the Development Services Department, the preceding Director of Information. You also played a role, I think, in finding William Clark as a successor, a successor who would be acceptable not only to Woods, but to Woods' successor, McNamara. Can you shed any light on how and why the change in Directors of Information took place, and on your role in smoothing that transition?

DEMUTH: I can't, Bob. You mentioned this problem to me in a preliminary discussion we had. I cannot remember what it was that caused friction between Woods and Harold Graves, except that Harold Graves is a pretty outspoken person, and one can imagine that the personalities didn't ...

ASHER: He was a pretty good diplomat, too, though.

DEMUTH: Yes, but in any event, Woods decided to change his Director of Information, and since my department was a sort of dumping ground for assignments that didn't belong elsewhere, and in this case for a person that didn't fit in elsewhere, George asked me to take him on, and I, having a very high regard for Harold's capacities, agreed to do that. Then the Information Department was put under my direction. My concern was not to run the Information Department, but to find somebody to run it. I think William Clark undoubtedly indicated to a number of people that he would like the job, because I began to hear suggestions from a number of different sides that maybe William Clark would be a good successor to Harold Graves, and eventually the Information Department staff indicated that they would be very happy with William as Director of Information. So I called him up on the telephone, he didn't sound too surprised, and he came on board.

ASHER: And then was there question of his acceptability to McNamara, because this was very close to the end of Woods' reign, wasn't it?

DEMUTH: Yes, he came over here, and he, Woods and I went over to see McNamara in the Pentagon. It was immediately apparent that McNamara and Clark hit it off. They were both dropping names like mad.
ASHER: A favorite activity of William's...

DEMUTH: McNamara indicated that he would be very happy to accept William as Director of Information. The Information Department was still under me, but I didn't exercise much authority over it once William came on, except to try to help him. Eventually he went to McNamara and said he thought he ought to report directly to McNamara, and I said this was perfectly all right as far as I was concerned, and it became independent. But eventually my department came under William, after I'd left.

ASHER: Was it before that separation, or only after, that William became sort of the first appointment on McNamara's daily calendar? He said in his interview that he was the sort of first, during McNamara's early days at least.

DEMUTH: Oh, right. At least until I left this was true. You know, William is a very delightful person, and he's full of gossip and Bob likes gossip, for a while. When McNamara came over William made an arrangement with him to see him first thing in the morning, and this always gave William a leg up on everybody else in the staff. It was very well done.

ASHER: I'd like, if I may, to ask a kind of personal question. I don't know if the answer takes us back to the latter months of George Woods' presidency or the first months of Bob McNamara's. But as you know, better than anyone else, Ed Mason and I produced a fat book on the World Bank, The World Bank Since Bretton Woods, done outside of the Bank, published by Brookings. You headed the Staff Committee that concluded that such a study should be written outside of the Bank, although at just about the same time the Fund had reached another conclusion, namely that a study of the Fund should be done under Fund auspices, financed by the Fund and done by people whose work could be inspected at all times by the Fund. Did your committee have any difficulty reaching that decision, and persuading the Bank's management and Board to go along with it?
DEMUTH: As I recollect it, we didn't have any difficulty at all, in fact everybody was enthusiastic about the idea of getting a reputable, independent, outside institution to ... 

ASHER: That was before publication.

DEMUTH: Amazingly enough our only problem was the problem of how much confidential information you and Ed Mason should have, and we didn't really have too much trouble with that once Kermit Gordon, as head of Brookings, agreed that we could review what you'd done, and if there was anything confidential that we thought would hurt the Bank he would omit it, or he would consider omitting it. The most difficulty I had was the lunch that you and I both attended with Kermit (Gordon, President, Brookings Institution) at which we negotiated the agreement that you would have independence, but, on the other hand, that we would be able to protect the Bank against unwitting harmful confidential disclosures, and--as of course all of us knew would be the case--we had no instance in which we had any such disagreement.

ASHER: Well, I think we've reached the McNamara era, if not passed it. Under Bob McNamara the Bank underwent a really vast expansion in borrowing, in lending, in the range of activities for which loans were made, and in personnel. Again, what do you regard, in a general way, as the principal pluses and minuses of that era?

DEMUTH: You ask nice simple questions. I think that Bob fortified the role of economists to the great advantage of the Bank. He made it clear that the Bank was going to emphasize the economic impact of its loans. On the other hand, he relied on the economists, in my judgement, too much for policy planning. I remember we had a meeting of the President's Council at which he asked the views of the Council on whether the Development Policy Staff as it was then being formed under Hollis (Chenery, Vice President, Development Policy) should be given the policy planning role that previously had been largely performed by my department. There was a unanimous view, except for Hollis, by everybody on the President's Council that it would be a bad mistake
to give the policy planning responsibility in the Bank to the economic economic group. In fact, Bill Gaud, who was then Executive Vice President of IFC, said that the one thing he had done at AID when he was Director that he regretted was putting the policy responsibility on the economists, and he strongly warned McNamara against it. And the next day the memorandum came out giving the Development Policy Staff the policy planning responsibility. So I think he did emphasize the role of the economists, or gave them more responsibilities than I would have.

ASHER: But the result was partly to formalize planning in a way that hadn't been done before, in terms of forward planning, et cetera.

DEMUTH: That's true in terms of country programming. I'm talking about general policies of the Bank. On the programming side, I think he added considerably by insisting that we have a program for every country. The difficulty was, however, that it was overemphasized. We had a five-year program which was a composite of all these country programs, and we were darn well going to meet those programs, and the targets that were set were set without real regard to whether the projects that were being financed were ready for financing.

ASHER: These were quantitative targets?

DEMUTH: These were quantitative targets, and also divided into sectors. Numerous times I had loan officers and project people come and say they'd been pressured to make a particular loan in order to meet the target even though the project wasn't ready for financing yet. And this really deprived the Bank of the leverage it previously had because the country knew that the Bank staff had to push the loan -- it was in the program. And the loan officer was under terrific pressure to make that loan this year, so that I think it was a disservice to the Bank to put so much emphasis on those targets -- not to set targets, but to put the pressure on to meet the targets.
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Then of course there was the overall macro-economic planning on the basis of which these country programs were developed, and which was completely undermined by the oil price rise. A basic assumption underlying the plan proved to be erroneous, as I believe will always be true if you try to plan for the world. Instead of taking a lesson from that — that you can't make global plans without being sure that some contingency will come up to destroy some of the assumptions -- the order went out: do the five-year plan over again on the basis of revised projections as to oil prices. And I think there was just too much emphasis on that.

ASHER: Is this part of McNamara's fondness for numbers and his emphasis on reducing to numbers some things that are pretty difficult to reduce to numbers?

DEMUTH: I think so, yes. And in part, Bob would say it's better to have a number than no number. How can you decide what you're going to do unless you have some framework within which to operate? I don't disagree with that if the plan doesn't try to look too far ahead, or if you're flexible in what you're doing so that when there are unforeseen changes you can make the necessary adjustments quickly.

ASHER: Would you give higher marks then to such initiatives -- and I don't know whether this was really McNamara's or whether it came from within the staff -- as the World Development Report...

DEMUTH: No, the World Development Report was a backward-looking report. What has happened, that's fine. I think it's what's needed. Whether it's needed in quite the detail, and with all the money that's spent on it, I don't know. My main problem is that the emphasis on poverty, the lowest 40 percent, which was always in the formal rhetoric, was taken out of context during McNamara's presidency, as I suspect it was really intended to be, so that the emphasis was on removing poverty rather than on increasing productivity. My own view, which is undoubtedly regarded as regressive in these days, is that the role of the Bank is to increase the productivity of countries so that they can deal with their own poverty. I don't believe it's feasible for the Bank to run a
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global poverty alleviation program. Rather, I think the Bank's emphasis should be on trying to increase the ability of countries to develop themselves. In formulating their development programs it is quite right that governments should emphasize social development and distribution of wealth more equitably than it has been. But the Bank's emphasis is so heavily on helping the poorest 40 percent that, in my judgment, it has gone overboard on that side rather than on the productivity side.

ASHER: Do you think there was a deterioration in quality of projects as the Bank moved from its previous heavy emphasis on large infrastructure projects to smaller projects deliberately designed to benefit the poorest of the poor in the borrowing countries?

DEMUTH: I can't answer that generally. I don't know enough about it. I will give one instance which seems to me indicative. The Bank has emphasized so-called rural development loans which include not only crop production but health and education and various other social activities, which is fine if it's workable. At the same time, the Bank was taking on its staff and emphasizing the extension program that had been developed by an Israeli called Benor in India. The whole theory of Benor's extension program was that you can't do too many things at one time. What you need to do is have an extension service that visits farmers frequently and tells them on each visit one thing to do to increase productivity, and don't worry about other things, get productivity increased. This had a tremendous impact in India. And the Bank put out a pamphlet in which McNamara wrote the preface in which he said that Benor's approach had been so successful in India that we are trying to spread it to other countries, and we commend it to countries for their consideration. In my mind, Benor's approach was so inconsistent with the Bank's rural development approach that I don't know what countries thought about it.

The other thing I was worried about was the creditworthiness of the borrowing countries. I feared that the Bank was lending so much money that the debtor countries were likely to face serious debt service problems. This
DEMUTH was after I left the Bank. I talked to a number of my friends who are Bank economists, and all of them gave me the same answer: there's going to be such inflation in the world that repayment in dollars is not going to be a burden. When the time comes for repayment, debtor countries will be able to do it because it will really be just a small amount. And I confess that this was not an answer that I could accept.

ASHER: I don't think it's the answer you're getting in 1984.

DEMUTH: I don't think it's the answer that one gets now, and I think the Bank has a certain responsibility for leading commercial banks and other international organizations into some of the over-indebtedness that exists in Latin America, for example, and a few other areas.

ASHER: Except those private banks were very willing partners in the effort, weren't they?

DEMUTH: Sure they were willing, but they followed the World Bank to a large extent. I don't mean to say the responsibility is the World Bank's rather than the commercial banks'. I just think the World Bank underestimated the credit-worthiness risks and this had a spillover effect on the commercial banks.

ASHER: One pioneering venture in the technical assistance field that did come to fruition during the McNamara years was the establishment of the Consultative Group on International Agricultural Research (CGIAR). You chaired that group during its first two years, and then, after you left the Bank, you chaired one of its offshoots, the International Board for Plant Genetic Resources, for six years. What can you tell us about the creation of the CGIAR, how it worked, what interest, if any, McNamara took in it, and what you regard as its principal accomplishments and shortcomings?
DEMUTH: That's a large subject all by itself. Basically, the international agricultural research centers were a creation of the Ford and Rockefeller Foundations. Frosty Hill (Program Advisor) of the Ford Foundation and Sterling Wortman of the Rockefeller Foundation, both unfortunately now deceased, worked together in creating the International Rice Research Institute in the Philippines because they realized that an increase in the production of rice was the major development push that could be given to Asia. They worked together in connection with the creation of CIMMYT (Centro Internacional de Mejoramiento de Maize y Trigo (International Maize and Wheat Improvement Center)), which was based originally on a Rockefeller Foundation bilateral program with Mexico.

Frosty and Sterling came down and talked to us at various times about Bank support for these institutes, and we encouraged them. In fact, I think we made a loan, if I'm not mistaken, to IRRI (International Rice Research Institute) at that stage. These institutes were so successful that it appeared clear that they could serve as a useful model for institutes in other parts of the world covering other crops, cropping systems, and various other aspects of agricultural research. The idea of getting a core of top notch people in the world together in an underdeveloped country, and have them work on a single problem, whether it was to determine what crops could best be produced on a particular kind of soil in that area, or whether it was for rice or wheat or some other specific crop.

It was also apparent that the two institutes that existed needed to be expanded. Rockefeller and Ford had agreed to put up three million dollars apiece each year for this objective, most of it going to CIMMYT and IRRI. They had also received some support from Canada and, I think, the U.K., but the Foundations realized that the dimensions of the job were much bigger than could be met by three million dollars or six million dollars from the two of them, and that it really was a matter of getting more sources of support and getting a better idea of where new initiatives ought to be taken. As Frosty Hill put it, "We decided to go public", and they decided that the Bank was the one that should take the lead in doing this, if it would.
The Bank immediately said this was FAO's field, and consulted very
directly with FAO, which said that they would be happy to join in an effort to
increase and expand this model, but they didn't want to be in the fund-raising
business. They thought that was the Bank's job. They would rather remain on
the technical agriculture side, and the Bank should take the lead in forming
the over-all group. So we worked out a proposal for a Consultative Group with
Ford and Rockefeller, and took it to the Board. We had quite a discussion
because the European donor countries didn't want the Bank to become any more
powerful than it was. It was already too big from their standpoint. Putting
the Consultative Group with the Bank would just be an added power lever, and
they wanted it to go to FAO. The lead in this was taken by France and
Germany. We had a number of discussions privately with their Directors and
their governments, and it took about a year before the Europeans came around
to the view that the Bank should be allowed to take the lead in this. We set
up a system under which the Bank would provide the chairman of the
Consultative Group, provide the staff, but that there should be a Technical
Advisory Committee (TAC) that would advise the governments in the Consultative
Group as to what the basic research needs were, how important a particular
proposal was, and monitor, from a technical standpoint, the proposals which
came up to the Consultative Group for financing. It was decided that the TAC
secretariat should be stationed in Rome and run by FAO, and the Consultative
Group secretariat would be here in Washington and run by the Bank.

We started out in 1971 with a meeting here in Washington at which about
twelve donors or so showed up, and also international institutions, such as
the Asian Development Bank, the Inter-American Development Bank, and some
foundations. It was a peculiar committee because it had governments, private
foundations and international organizations, all as members. The Technical
Advisory Committee was headed by Sir John Crawford, who proved to be a
stalwart and magnificent resource for the Consultative Group because he
managed to get the members of TAC—a very varied group of scientists from
different parts of the world—to agree on recommendations which the
Consultative Group as a whole could accept.
The Consultative Group was run as a very informal operation. Although it has a charter, in the form of a statement of purposes that it adopted at its first meeting, there was never a treaty setting it up. There was some pressure on the Consultative Group to take all the monies that were provided and put them in a pool and then allocate them. The Bank resisted that pressure, and said it thought governments preferred to allocate their own resources as they wished, and this was to be what its name implied, a Consultative Group advising governments where their monies could best be used, which centers had enough already to meet their needs, and which others were in more urgent need of financing.

I've never been associated with an operation where we had so much cooperation. There was nobody trying to make brownie points, nobody politicizing the operation. As I say, we started at a time when there were two international centers. Before I left we had established two more, one being ICRISAT, the International Crop Research Institute for the Semi-Arid Tropics, in India, and the other being ILRAD, the International Laboratory for Research in Animal Diseases. The funds available to the centers had increased from ten million dollars in 1971 to something like twenty-five or thirty million by 1973. Incidentally, McNamara asked me, after I retired in 1973, to stay on for awhile, so I remained as Chairman of the Consultative Group, even after I left the Bank, for a year. It's now operating at I think one hundred sixty two million dollars per year and there are thirteen or fourteen centers that the Consultative Group is supporting. It's had a growth that has been greater than any other development activity that I know of, and there is still that spirit of all participants wanting to make the Group work effectively, because increased agricultural production, as we all know, is an essential in world development. Warren Baum took my place as Chairman and did a wonderful job, and he is writing a book, or is about to write a book, on the Consultative Group, which I think will be very useful in understanding it.

ASHER: And he had the backing, as you did, of McNamara in this effort?
DEMUTH: McNamara was very enthusiastic about this. He said at the staff meeting after our first meeting of the Consultative Group that after we've all left here the one thing that may have made a difference in the world is this Consultative Group. On the other hand, he never would permit the Bank to provide more than 10 percent of the financing required by the centers supported by the Consultative Group, because he felt that keeping the Bank's contribution down was necessary in order to get governments' contributions up. The U.S. provided 25 percent, the Bank provided 10 percent, and the rest was split among a large number of donors, including some developing countries that have now come in. Some of the Middle Eastern countries have now come in.

One would have thought that, as the Bank has come to provide a more substantial fraction of the world's development financing, its contribution to this research program might have increased proportionately. It's never gone beyond 10 percent. McNamara never allowed it to go beyond that. He did allow the Bank to offer transitional financing if a center was in financial straits because governmental contributions were late in coming in. The Bank was willing to do a little bridge-financing, but he never would increase the percentage of the core financing. In fact, he told us at one time at an international centers meeting, when the centers all get together with their donors, that these centers are apt to get pretty lush, and their needs have been met. Be hard on them, look at their budgets very closely, and keep them on a tight leash so they don't overspend. And the same evening, when he had a delightful dinner for the Directors and Chairmen of the Board of the Institutes at his house, and a few of the Bank people who were working on the Consultative Group, he told the Chairmen and the Directors that he was entirely behind them. If they ever had any trouble with the staff, or trouble getting as much money as they needed, they should come directly to him, and he would see that they got it. I think his heart was in it, and I think the initiative, the push that he gave in getting it started is one of his major contributions to the Bank.
ASHER: In discussing the vast expansion of lending and borrowing that took place under McNamara, we didn't mention the major reorganization of 1972, for which he was responsible, and it was the first big reorganization since the 1952 one that you discussed in your initial interview. Would you care to comment on the necessity for this one, and the effects, intended and unintended, that it may have had?

DEMUTH: Well, I can talk about part of that. I think it was a good idea to have another review of the Bank's organization. I think McNamara properly decided that this shouldn't be just in the hands of McKinsey & Co., who were hired to do it, but the Bank staff should provide a major input, and so he created, under Sir William Iliff, a Vice President, a staff committee on which Dave Sommers, Siem Alderwereld, and I served. We arranged to meet every Tuesday to discuss the reorganization thinking of McKinsey, so we could be sure they weren't going off into uncharted waters or in directions that we thought were unacceptable. The McKinsey personnel always came into those meetings very confidently, put their ideas forward very confidently. And I got to understand that when I discovered that these meetings of the committee took place on Tuesdays, and every Monday the McKinsey group had a meeting with Mr. McNamara in which they went over the same ground and got his views. In the end they put forward a proposal which was what McNamara wanted to put forward to the Board, but now he had the backing of McKinsey & Co.

I think that some of the changes recommended were clearly needed. I would question, however, whether the Bank should have grown as much as it has grown, whether there shouldn't have been more emphasis on keeping it as a leaner organization, which is what McKinsey & Co. professes to believe in, instead of having this enormous number of divisions and sections so that the chart of the Bank looks like a chart of the Pentagon rather than of a banking institution. I can remember that this reorganization plan left twelve specialists in the Technical Operations Department homeless in the Bank. There just wasn't any place for them. These were among the most difficult people to recruit. When Bob asked me what I thought of the reorganization plan, one of the things I pointed out to him was that here we had twelve very important people in rather
arcane specialties, and they were left homeless. Bob looked at me incredulously and he said "There are only twelve!" There was too much emphasis on organization and not enough on people. But, Woods had gone some distance in creating a President's Council, and the management of the Bank needed to be broadened.

ASHER: Did it need to be continued as such a heavily centralized institution, both with respect to the power of the President and with respect to the concentration of personnel at the headquarters?

DEMUTH: Well, it certainly did not need to be as centralized in connection with the power of the President, but we had a President who was able to handle an enormous amount of work, knew how to get hold of the levers of power. Nothing significant went on in the Bank that McNamara didn't know about, or didn't approve of. And he wasn't a bottleneck because anything that got on his desk got decided promptly. I don't know whether actually the managers of these various regions and divisions and so forth now have power or don't have power. It certainly was an organization in which power could be delegated. They have organized a large number of country missions which get to know much more about the country than anybody can headquartered in Washington, and this is something that I had urged. They have not delegated authority to the country missions, so far as I am aware, to approve any loans, and I'm not sure that that shouldn't be done.

The thing I would be most critical of, if we're talking about organization, is the expansion of the Bank. Here's an institution that's been in existence for a long time, and should know its business. It hasn't gotten any more countries as clients. It should know the economies of those countries better and better as the years go by and yet it continues to expand. And the only explanation you hear for it is that we're going into new types of projects. Well, nobody has done a cost benefit study as to whether it's worthwhile having all those extra staff people in order to go into new types of projects, or whether they're really necessary. I can't believe that, without an increasing clientele, and with more and more information available
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to the Bank from past missions, anything like the expansion that has taken place is necessary. I think the Bank would be a more efficient, certainly a more economical, place to operate if it hadn't taken place.

ASHER: It hasn't been an important addition to the Bank in terms of personnel at all, but one of the lesser known additions to the Bank family during the McNamara regime was the International Center for the Settlement of Investment Disputes, ICSID. Do you regard that as very central to the Bank's functions and a useful addition to the structure, to the family?

DEMUTH: I think it's useful. It's not useful so much in the settlement of disputes as it is in encouraging investments. By writing in dispute settlement provisions that the boards of directors of investing companies will accept, the ICSID clause providing for recourse to ICSID in the event of disputes, has been written into a large number of investment contracts. I can't say positively, but I assume that if ICSID had not been available, some of those investments might not have taken place. So in that sense it's been useful. In terms of settlement of investment disputes I think it settled one, and is processing two or three more cases, in one of which my firm is representing one of the parties.

ASHER: You in your capacity as an international lawyer?

DEMUTH: Yes, my firm.

ASHER: This raises another kind of question. You, after leaving the Bank and becoming an international lawyer, had the Staff Association, I think, as a client in a case with management. What can you tell me about that case and how it got settled?

DEMUTH: Well, the Staff Association at that point was divided into two groups - the Americans and the non-Americans. The Americans were worried about a change in the formula for fixing their tax reimbursement, a change which would have obviated what seemed to be a very inequitable thing, that some staff members got more in tax reimbursement from the Bank than they paid in taxes.
The Europeans were much more worried about cost of living adjustments. They said they had come over to the U.S. to take jobs here, and they wanted to be sure that their salaries were maintained in real terms. They wanted a commitment on the part of the Bank to make cost of living adjustments. The Bank had in fact been making cost of living adjustments in line with the increase in the CPI, the Consumer Price Index, in Washington, but they wanted a commitment that this would go on. There was quite a battle between the Staff Association and the management.

Concurrently with that, Mr. David Morse, the former Director General of ILO, who was one of my partners, had represented the Staff Association of the United Nations in an important tax issue that came up at the United Nations and, on the basis of what he had accomplished there, and his general reputation, the Staff Association came to him and asked him to represent them, or advise them, in connection with this dispute with the management. They had already gone to Ted Sorensen and gotten an opinion from him, and some other expert. They thought a third opinion might have an effect on the management.

We advised them primarily to put pressure on getting an Administrative Tribunal set up. The Bank was one of the few international organizations where the staff member had no independent outlet in which to air his grievances and to press his claim—it had to be pressed within the management. Although I think the management, as far as I've seen it, has been very fair with the staff, some means for settling disputes by an independent arbitral tribunal seemed to us to be very important.

The Staff Association agreed with that, and did bring that proposal before the management and Directors, and after very considerable discussion an Administrative Tribunal was created to hear disputes between the Bank staff and the management. And then the case in which we represented the staff was brought to test the validity of the change in the tax reimbursement formula and whether the staff had a vested right to a cost of living adjustment. The Staff Association said to us, look, we don't really expect to win this tax case, because the idea that people might get reimbursed more than they pay in
(DEMUTH)

taxes is just too difficult for people to swallow. There were strong arguments that the established tax reimbursement formula was a part of the contract of the American staff members, but it was a difficult position to sustain. The Staff Association officers also said they didn't expect too much on the cost of living issue, but they wanted to get the principle established that the staff had certain acquired rights. In other words, if the staff had been treated in a certain way for a long period of time, such treatment then becomes an acquired right that the Bank can't change. We lost the case but we won the principle. And we never had such happy clients in a losing case. The Tribunal decided that the Bank was under an obligation to maintain the full value of its salaries. It wasn't under obligation necessarily to follow the CPI as a formula, but it was under obligation each year to review the salaries and to make an adjustment that would maintain the real value of those salaries. So that when the award was made, the principle of acquired rights, which was stated differently in this case, and I think better than most other tribunals have stated it, was established. This, I think, made the staff very happy and it was not objected to by the management. It was a very felicitous conclusion to that dispute.

ASHER: Gradually we're putting together different pieces of Bank structure that have come up, some of them since your departure. I think one that came up before your departure was the creation of the Development Committee. It's got a fancier name than that but it's a creature of the Bank and the Fund, and it's usually called the Development Committee. A joint undertaking of that nature would have been very difficult during the early years of the Bank, but aside from indicating the improvement in relations between the Bretton Woods institutions, how useful, in a substantive sense, do you think the Development Committee has been, and in what respects?

DEMUTH: This is a subject I really can't talk about very much because I had very little to do with it. My impression is that the Development Committee was established because governments felt that they did not have a say about the policies of the Bank, and that they wanted a forum in which, quite apart from their Directors who were living in Washington, they could express on a
regular basis their views as to the Bank's policies. I'm not sure of the extent to which this was the case as far as the Fund is concerned. So the Development Committee was created to allow high level officials from capitals to meet regularly to discuss Bank policies on the basis of a report of its own staff. Unfortunately, to be effective this would mean that the Committee would have to, in certain respects, if it felt the Bank was wrong, criticize the Bank. This is very difficult for governments to do, because most of them want Bank financing. In any event, when the Bank has a very strong President, it's very difficult for the staff, for example, to even prepare papers for the Development Committee that would criticize the Bank.

At one point a new head of the Development Committee staff had to be appointed. This was a very prestigious position, very attractive in terms of salary and perquisites, although the staff had never really done anything. The U.S. was putting forward a candidate whom Mr. McNamara didn't like and thought might be an irritant, so he called up Dick King (Sir Richard King) in the U.K., who had a good deal to do with the Bank and cofinancing, OECD matters and so forth, a very able citizen, and told him he thought this was one of the most important jobs around, and asked that he take the job and promised him all sorts of support if he did. King took the job. He found himself, however, without an effective staff. He was told the Bank staff was at his disposal, and he could make requests of the Bank staff, but he didn't really think that was very effective. And he had nothing to do. After about two years he threw up his hands—I think it was two years. It may have been longer. But on the basis of what Dick has told me and what I have seen, I think if the Development Committee disappeared tomorrow it wouldn't make any real difference.

ASHER: Instead, I think they're looking for another Staff Director.

DEMUTH: That could be. And it could be that if they got a strong Staff Director who would really look critically and would be willing to come forward with criticisms to the Bank Board, it might perform a very useful function. The Bank is, to a large extent, independent. It's an extraordinary agency
because the President has the whole five-thousand member staff at his disposal. Anything he presents to the Board he's got backing for. The staff work has been beautifully done. It's very difficult for an Executive Director to argue against a proposal put forward at the Board because he's likely to be steamrollered, and the Directors don't like to be steamrollered, so that an independent look at Bank operations could be useful.

ASHER: Well, we've covered a good deal of ground, and maybe I should get into a kind of wrap-up question. Would you care to summarize the principal satisfactions and frustrations of your long association with the Bank and would you care to get into this record any comments about the Bank and its affiliates that you feel you may not have brought out adequately in the last two hours.

DEMUTH: Well, I guess that one thing I'd like to say is that I think the Bank is a remarkable institution. It's got a wonderful staff. Going right back again, as I said in my earlier interview in 1961, Bob Garner, who was Vice-President under McCloy and Black, insisted that there was no reason why a public institution shouldn't be as effectively staffed as a private one and shouldn't be as strong in resisting political pressures. And once you leave the Bank you find out how much information is available within the Bank, on almost any part of the world and almost any important economic problem. There's some information in the Bank, and its staff is an asset of just inestimable value. It's an exciting place to work. One of its problems is that it's so attractive in terms of the work that sometimes people stay longer than they intend to stay. But that, from the Bank standpoint, is fine. I think, despite some criticisms I may have voiced during these two hours, it has been extraordinarily well led. I've been impressed when I was in the Bank by how much the personality, objectives, and leadership of the President had to do with where the Bank went. It's a very, very strong influence, and I trust the Bank will continue to have that kind of leadership.
The only other thing I would say is that I think the Bank's gotten too big, both in terms of staff and possibly in terms of lending. I think some of its loans to some of the richer developing countries reflected a desire to build up the amount of lending it did and weren't really justified. But on the whole, I think it's doing a remarkable job. I think its staff remains independent and impartial in discussions with governments. I think they also remain reasonably modest in their approach and not arrogant, as they sometimes tended to be. I think they can continue to have an enormous influence. I just trust that the governments will provide the funds that are necessary for the Bank to continue its operations.

ASHER: Well, at the beginning of this conversation I mentioned the informative and insightful interview that you gave to Bob Oliver in 1961. I would say that this 1984 follow-up was equally informative, equally candid, equally valuable in every way. Personally, and on behalf of the Bank, I thank you very, very much.