A CONVERSATION WITH IRVING FRIEDMAN, I

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OLIVER: May we begin with your saying a bit about your career in the International Monetary Fund?

FRIEDMAN: My association with the International Monetary Fund was a very happy period in my life. We were deeply involved in liquidity discussions, a small group of us. I had particular responsibility for the International Adjustment Mechanism which I felt at the time was being neglected, both outside and inside the Fund, as being really the core of the problem. Too much emphasis was being given by many to measurements of international liquidity and to trying to predict what magnitudes of international liquidity would be needed in the future. These two streams of work were going on simultaneously within small groups. At that time I was also very happy in my personal relations with the Fund, because I had known Pierre Paul Schweitzer for many years and had a great regard and respect for him; he is an extremely nice person with whom to work. He had pretty jaundiced views about what would happen to anybody over at the World Bank and what the differences between working at the Bank and the Fund would be like.

OLIVER: How did he characterise those differences?

FRIEDMAN: Mainly he thought of the World Bank as being run like an American business—by captains of industry—which he didn't regard as a very desirable environment, whereas the Fund had a tradition of being run as a combination Central Bank and Ministry of Finance with a great deal more regard for such things as dignity, tenure, and personal sensitivity. The Fund was a great place for accepting different points of view, for accepting the idea that people could differ about very important things. There was no such thing as the Managing Director of the Fund ever telling anybody what to think. It was just the reverse. The function of the staff of the Fund was to try to formulate policy, or apply it to a particular case. The job of the Managing Director was to take the advice of the staff, to help modify it, improve it, etc., negotiate it in a diplomatic sense or deal with it on the Executive Board level. But there was no concept of a leader at the top telling the senior staff what to think.

We in the Fund had the notion that the Bank was run by the President. The people of the Bank staff did what the President told them to do; they even thought what the President told them to think. In fact, they all wore black Homburg hats because Mr. Black did. We used to be pretty scornful of this kind of existence. Keep in mind, Bob, that probably as much or more than any single person in the world, I used to be introduced in Japan as Mr. Fund. I was sort of a prototype staff member of the Fund, and I shared this scorn of the Bank in this sense of the word—not for its objectives or its purposes or even what it did, but for the image of a Bank staff member. We all used to feel sorry for fellows who worked in the Bank, as compared with the Fund.
OLIVER: May I ask this point, do you think that the Bank has changed in that regard in the last ten years? Or is it still an operation essentially like an American industrial concern?

FRIEDMAN: I think the Bank has changed considerably during the last ten years, but life in the Bank is still far from what it was in the Fund, that is the Fund that I knew. (I don't want to make the mistake of anachronism here: I am comparing the Fund that I knew with the Bank I know now.) It could be that the Bank has had an impact on the Fund. Maybe the Fund today is more like the Bank, but the differences are still pretty marked.

In your manuscript you were emphasizing that at some point in the early history of the Bank, at the time of McCloy, etc., the Bank became presidential-led sort of the imperial sovereignty as against the Board. I think that was exactly the impression of those who worked in the Fund. You also note it is the Board which leads in the Fund, which is exactly right, and that has tremendous implications for the Staff, because if you are working for a collegium, like the Executive Directors of the Board, there are a great many different points of view. You are not working for someone who just has one point of view. In fact part of one's skill in the Fund is recognition of different points of view. You try to get out of the staff a prerogation, or precognition, of these different points of view. A Fund paper is better because it has already anticipated the conflict that is going to develop at the Board level. So the idea of having a point of view different from the management is taken for granted. The Managing Director is not someone who gives a line to the staff. Quite the contrary. He takes his line from the staff; he is a sort of bridge between the staff and the Board and feels free to modify a staff position.

For 14 years in the field of exchange rates, exchange restrictions, and use of the Fund resources, no recommendation went to the Board that I didn't approve. It was in my name—often it was also in the name of another department director: the area department director and the legal department were the two most often associated. Whenever I would ask the Managing Director of the Fund, "Why don't you approve the paper?" he would turn down the suggestion on the grounds that, as Chairman of the Board as well as the Managing Director of the Fund, he wanted to feel free at the Board level to suggest some compromise. That is what the Fund is all about; it is a forum for discussions of international monetary problems, and the guy in the chair has the leading position in suggesting that a staff recommendation be changed. It is not his recommendation. The only responsibility he has is that he chose the staff in the first place. He is responsible, therefore, for the caliber of the work or for the integrity of the people, but not for specific recommendations. That was something that came from the staff. Often, of course, he would play a role in these recommendations, and once they were made, he would be free to change them.

In the Bank, to this day, every recommendation that goes to the Board is made by Mr. McNamara. No staff member's name is even
mentioned in a recommendation. This was done by Mr. Woods before him and Mr. Black before him, so this is not an innovation of Mr. McNamara. There exists in the Bank the idea that the Bank President runs the Bank, not the Board. The President gives the line to the staff. The staff are his principal lieutenants. They are also his principal advisors. But the leadership of the Bank is a presidential type leadership, whereas the leadership in the Fund, I think to this day, is a kind of collegial leadership, both on the Board level, and as it gets reflected in the staff. In the Bank there is a high premium—and I think I can say this even for publication—there is a high premium in agreeing with the Bank President. If you want to survive under Black, or Woods, or McNamara, to take the ones that I have had some sensitivity to—particularly under Woods and McNamara—it makes a great deal of difference whether you agree with the President and whether he thinks you are a nice guy.

In the Fund I saw Mr. Jacobsson for three years trying to choose a successor to Eddie Bernstein as Director of the Economic Research Department of the Fund and not succeeding, not having enough authority even to appoint a department director, because the department director was someone he had to appoint in consultation with the Executive Directors of the Fund. In this case, he had wanted an Englishman, and the Executive Directors did not see why it should be an Englishman. It was as simple as that. He spent years trying to get a particular Englishman, who I can say off the record was Morris Allen, who was the chief intellectual of the Bank of England at this time and had been an Oxford Don, and he couldn't get it through. And this was so even though Per Jacobsson was probably the most powerful Managing Director we ever had in the Fund. His were the years of the great successes, and yet he didn't have enough strength to do this.

In the World Bank, on the other hand, Mr. McNamara can reorganize the whole Bank and appoint up to ten new vice presidents; he can go ahead with a minimum concern about what member countries think, because they continue to accept the point that you made in your manuscript—that the president is supposed to run the Bank. It is kind of odd, too, because there are many dual directors, the same individuals representing countries, who, when they are in the Fund, insist on the prerogatives of Executive Directors, but when they come to the Bank may say something about prerogatives but do not insist upon them. It just makes for a very, very different type organization: the Bank does not encourage the same freedom of different points of view as does the Fund.

OLIVER: To come back to your own move from the Fund to the Bank, I understand that ten years ago, when you came to the Bank, the Fund really had more involvement at the policy level in its various member countries than the Bank did. Why was this so, and did it relate to why Mr. Woods asked you to come to the Bank?

FRIEDMAN: The Fund, under its Articles of Agreement, has a fairly prescribed role. It was set up as an international monetary authority with respect to exchange rates and exchange restrictions, and given, as you so well know, financial resources to help countries cope with
balance of payments difficulties. In the Article 14 consultations, we had to make a basic decision — the matter came up in about 1951 — What did it mean to have an International Monetary Fund? What did it really mean in practice? There were many people (people as authoritative as Louis Razinaki, for example, who had been at Bretton Woods, who was not only one of the leading architects of Bretton Woods but also a very thoughtful person and extremely devoted to the Monetary Fund — so this was not a question of hostility to the Fund) who really believed that the way you conducted an Article 14 consultation on so-called transition arrangements was that you left it for the country to write a letter to the Fund saying, "We do or do not find ourselves in a position to remove some of these exchange restrictions," and then just sign the letter — the governor for the Central Bank or the governor of the Fund; and that if the Fund differed, it would send a letter back to the country making the so-called representation, saying, "We think that you could withdraw more of your restrictions," and if you don't the Fund should send in a whole series of sanctions.

My conviction about this was at that time based upon the very sorry experience of the Fund in the first few years when we were a seceded, ignored institution. The only dramatic event was the 1948 event with France when we had turned down a par value. (I think the French to this day have never forgiven us for turning down their proposed par-value.) It is the only case in the history of the Fund of turning down a par value change. And that was on the grounds, oddly enough in light of the early discussion about the Fund being too rigid — it was just the reverse— it refused to agree to the paper value change, as you undoubtedly know, on the grounds that it was inadequate; they wanted to see a greater devaluation. They didn’t think it would correct the fundamental disequilibrium in the French balance of payments, and, as events proved, the Fund’s judgment was quite right at the time. The idea was that you could sort of blackmail a country.

It came up in another way this time and had a lot to do with what happened in the Bank later. The experience of the Fund is that the automaticity concept of the Fund breaks down; when you try to work on a basis of eligibility and ineligibility, you got into a black and white list; the Fund spent nearly two years trying to decide who should be eligible and who should be ineligible. It was clear that in a period of balance-of-payments crises, which we had at this time, which some people were calling a permanent dollar shortage, that if you make everybody automatically eligible you are going to run the Fund out of money. The Anglo-American loan experience had shown how fast this could happen. On the other hand, the only way the Articles had prescribed for making a country not have automatic use was to declare it ineligible. You could never get the Board of the Fund — that is why it is important that it was run by the Board — you could never get this collection of countries to put anybody else on the black list. They are always protecting the others in order to protect themselves, and so we had no use of the Fund resources to speak of during this time.

I had in my job as Director of the Exchange Restrictions
Department this broad policy responsibility. Before that, as you know, Bob, I had been policy assistant for the Deputy Managing Director. This gave me direct access to the Deputy Managing Director and the right to sit on what was a committee of a half a dozen top staff people. I was a member of this group. In that capacity, I had written a memorandum to the Managing Director of that time, Camille Gutt, saying that I thought the way to overcome this problem was to relate the use of Fund resources to the efforts the countries were making to achieve preconditions for a strong and acceptable balance of payments position. These, in turn, were necessary as preconditions for having either a par value -- or having the kind of par value the Fund really wanted, which was one that would really perform its appropriate balance-of-payment role or would enable borrowers to look at the Fund resources as temporary rather than permanent, because you could think of reversals in the balance of payments. And Mr. Gutt—Mr. Overby at that time was Deputy Managing Director — thought this was a great idea. Then Mr. Gutt meets with Mr. Runcouncil meantime, and something comes out that is called Gutt-Overby use of the Fund resources, which is now what we call the Credit Surcharge Policy.

It is just at this time that I went to the Board with a paper on how to organize the Article 14 consultations. This enabled me to point to that policy and say, "We ought to relate this to our whole policy on how to achieve convertibility occurrences. Therefore our whole exercise in the Article 14 consultations can be related to how to implement what we now call the Credit Surcharge Policy of the Fund.

How can you make a judgement as to whether or not a country is making progress towards creating the preconditions for convertibility without going to the country, without talking to people, without doing serious economic work, without building an economics staff?"

At this point the staff on the Fund was very small. I wrote papers on Iran and Ethiopia's par values from the Encyclopaedia Britannica, for example, in 1947. I wrote at that time about 21 par value papers, mostly from tertiary sources, because we didn't have first-hand relations with countries. That was another shocker, indeed. I was always pushing at that time the point, and now I had a chance to implement it because I had a department of my own, that what we had to do was to have direct relations with countries. And we should stop pretending that we could know about a country by sitting in Washington reading the London Economist -- that was the best source that we had, or the Financial Times or the Manchester Guardian or the New York Times and a few things like that.

OLIVER: Did you have any difficulty getting the cooperation of the various governments in allowing the staff of the IMF to visit their countries to ask searching questions?

FRIEDMAN: Oh, we certainly had a lot of difficulties. In the first year, we had difficulties in two directions. The first was to get the staff of the Fund to agree that this should be done. Some of the staff thought that it was outrageous. As a matter of fact, a very good friend of mine, a guy named Tony Weir, who was the director of the European Department, resigned on the issue. He said, "I will not be
party to an inquiry, an investigation into my country." He was a very
distinguished chap from the Netherlands. He had been chairman of the
joint Benelux Monetary Union and was really among the three or four
most eminent people in the Netherlands. We had recruited him to become
a director of the European department. He and I were very good personal
friends, but he said, "Irving, this just cannot work. You cannot
really believe that a country as proud as the Netherlands would be
prepared to have somebody from an international agency come to that
country and discuss with their authorities the appropriateness of their
domestic policy. It can't be done." And J. W. Beyen, who later became
foreign minister, and who had already been governor of the Central Bank
and who had at one time been president of the BIS, said.

OLIVER: And the first Executive Director of the Bank?
FRIEDMAN: ... of the Bank as well. The image he drew at that time
in opposing my memorandum on the Article 14 consultations setting up
the procedure was, "Friedman is proposing that our countries dance nude
on this table. I can assure you that the Netherlands will never dance
nude in front of an international body." It is kind of interesting,
because later on the Netherlands became the strongest supporter of the
concept of multilateral surveillance, but this was 1951-52, and within
the staff there was outrage; on the Board there was outrage. The
United Kingdom, for example, made it clear that they just would not
accept anyone coming from the Fund. The United Kingdom had never even
allowed the Managing Director of the Fund to come to the United Kingdom
officially. In Camille Gutt's five years as Managing Director, as far
as I can remember, he never visited the United Kingdom as the Managing
Director of the Fund, except to the London meeting -- the first Annual
Meeting was in London. But that was the Governors, not the Fund staff.

I could tell you some interesting stories of some appeals I had to
make to individual countries, and our staff opposition was so strong
that in the first year of consultations I personally had to conduct or
chair 26 consultations. I couldn't get the other department directors
to chair a meeting. Only one other person in the Fund at the senior
level was willing to chair a meeting and that was Jon Guenther. The
others just begged off. One of them came to me and said that this was
going to cause the collapse of the Fund, and when it collapsed it was
going to collapse on my head. He said, "Irving you are the architect
of this and when this collapses, you are going to be clearly
responsible for the collapse, and I don't want to be a party to it."

In the case of Australia and New Zealand it took nearly ten years
before they would allow the first consultation mission. The deal I
made with the Australians was, "Will you consult if we promise not to
send a mission to Australia but have it in Washington?" And Melba, who
was then executive director for Australia and a very outstanding person
and very devoted to the International Monetary Fund, agreed as long as
we never asked to go to Australia and would talk only in Washington,
that he would then recommend to his government that they cooperate in
this Article 14 consultations. That gives you some sense of what was
going on.

OLIVER: I take it that at this period of history the Bank, as distinct
from the Fund, was not sending any economic teams to any countries at all?

FRIEDMAN: Oddly enough in some respects the Bank was doing more than the Fund. The Bank, for instance, in Colombia in 1949, organized a large survey mission. Missions were not related to the operations of the Bank, but they were done under the auspices of the Bank. The Bank brought a team together and arranged the acceptability of the mission in the field and so forth. I remember talking to Dick Demuth about this back in 1949. I was working with the Deputy Managing Director and was at that time fiercely jealous of the fact that the Bank was doing this, because I had the feeling that this was the kind of thing that the Fund should do, not the Bank. Dick Demuth's answer was the complete answer. He said, "Look, Irving" -- it was very close to this. I am quite sure -- "you in the Fund are not doing anything and you have left a vacuum, and we in the Bank are going to fill it. When you start doing something it will be a different thing." And that was exactly right. It wasn't as though we could say -- this was before the consultations, before we were sending missions to the field or investigating countries in any serious way -- "Why are you duplicating our work?" The answer was simply that we weren't doing it, and the Bank stepped in.

The Bank did it sporadically, in the sense that it did it only for a few countries. It takes a long time to do each one. Each one becomes a major effort. But on the other hand, the ones that they did do became, and I think they still are, minor classics. I remember some of the studies of countries like Morocco, and Colombia and some in Africa were really pioneer works, done by very reputable people; and then people like Andy Kamarck in the Bank had the job of editing and scrutinizing, so that by the time it came out it was a very fine job. 

But they were not related to Bank operations.

It is not until the '50s under the Article 14 consultations that we developed this program of reviewing the countries, developing the staff capability of doing it, developing the acceptability to governments that the Fund should make a recommendation about its policies. Every part of this was fought step by step. The first time -- I remember so clearly--when I decided why don't we try to include in our recommendations something about fiscal policy and wage policy, now taken for granted, we had a battle royal. The Board just revolted. What business did we have to say anything other than about exchange rates, exchange restrictions, or balance of payments? What were we doing talking about fiscal policy and wages? This was fought through, accepted, and, after awhile, some of its most vigorous opponents, like the Dutch, became some of our most vigorous supporters. By the end of the 1950s you could even move from Article 14 to Article 8 consultations, for which there is no provision within the Articles of Agreement, on the grounds that by this time the countries found that the consultation technique was helpful both in keeping track of what is going on in the world and exercising some kind of influence on each other's policies, and also rationalizing the Fund resources.

It meant you could use the Fund resources in a sensible way very
quickly, because at any given time the Fund staff had had recent firsthand experience with the country and could move rapidly in the field. This kind of program just wasn’t going on in the Bank. It wasn’t going on then at all. They still had these individual country surveys, but there was nothing like an automatic, regular review of countries, with recommendations of policy, with both explicit or implicit performance criteria of what was meant by good performance, with a kind of longer run outlook of where the country was going, with an international judgment as to whether or not this represented reasonable international behavior worthy of international support. Much, Bob, of what began later in the Bank, both in terms of organizing economic support, building staff proposals like the Supplemental Finance Proposal, were very largely inspired by the experience that I had had in the Fund. I could see at first hand the difference, for example, between doing a survey which was more comprehensive than anything we could do in the Fund, but done not by the staff of the Bank. In the Fund, everytime we sent a guy to Haiti or to Colombia or Brazil, he would go back again; and we could see that over that ten-year period of time between, say, ’50 and ’60, by 1960 we had fellows who were completely acceptable to the countries they went to, who were regarded by the countries as being experts equivalent to their own, and in many cases, like Sture in the Fund, regarded by the Finns and the Austrians and the Greeks and the Turks as more expert than virtually anybody in those countries. OLIVER: Coming back to 1964, when you were first approached to come to the Bank, is it fair to say that the Fund was doing more detailed, systematic, country-by-country reporting than the Bank was doing? FRIEDMAN: Yes. What I found when I came to the Bank was that the Bank had the notion that you only knew about a country if you expected to make a loan to it, and only to the extent that you needed information for the loan. In some cases if the loan was, let’s say, for a second stage of an electric generating project, you might not have to know much at all, because you had already decided on the first stage. This is Argentina or Brazil. When I came to the Bank in ’64 the Bank had not had an economic review of Brazil for seven years. Brazil was one of the major—if I remember correctly—potential borrowers, but the fact was it wasn’t a borrower. It had been put out in the cold as far as the Bank was concerned, and, therefore, Why did we want to do an economic survey? On the other hand, in the case of India and Pakistan, where the Bank had undertaken a leadership role in the India and Pakistan consortia, the Bank was doing very good economic work, because there it had already seen a continuing economic role. So on a few countries it was doing quite good economic work—two that come readily to mind are on India and Pakistan, but on most of the countries it was doing no work at all. OLIVER: I should have thought that the basic explanation was still the same. The Bank to this day does not send missions to Category I countries, countries who are donors to IDA, whereas the Fund does, because even the United States and the UK can have balance-of-payments problems.
FRIEDMAN: The difference as I saw it was that the Bank did not see itself as having a developmental role, basically.

OLIVER: So that if even if a country were a developing country, if it had been pretty well agreed that the two or three projects to be financed were obvious, then there was no need to send a team to the country to help develop a development program.

FRIEDMAN: Exactly. I think we can both easily agree that often the non-loan activity may really make more of a contribution to the country's development than the loan activity. Therefore, the idea was new that you might go to a country to help it formulate a better program, or you might act as a friendly critic of its program, one that was discreet and was not going to be publicized. To me, the fact that the surveys were published was a horrifying idea because I didn't know how you could give confidential and really candid advice to governments on erroneous policies if the thing was going to be published. Some way you had to get a confidential and advisory role on a confidential basis, but how could you do that if the only time you could do it is when they came to negotiate with you? At this point in time, incidentally, I tried to convince George Woods to drop the word "negotiation" in the Bank, which I never succeeded in doing. With whom are we negotiating? They are all our member countries. They own us. We are negotiating with our own stock holders. We ought to be thinking, How do we help this country achieve social and economic development?

OLIVER: It is not an antagonistic relationship.

FRIEDMAN: No, but the Bank was full of expressions like "arm's length". One criticism made against my approach was that I didn't want to deal with countries at arm's length. My answer was, You're damn right I don't want to deal with countries at arm's length. I want to be sitting in their laps, or I want to be sitting side by side. To this day I object to such a fuss about signing a loan; we sit on opposite sides of the table and exchange documents. To me this is still a very strange idea that when you talk about a country in the Bank, the one Executive Director who does not speak is the Executive Director from the country, even though he is obviously the most informed person in the room. When it was his own country, say, India -- the Bank had a very fine succession of Executive Directors, but they never spoke about India, on the grounds that there is a kind of adversary relationship, that the Executive Director had a vested interest or a conflict of interest. Their loan was being discussed -- it was a loan to his country -- and in some way or other his comments on his country were colored, were not going to be objective.

In the Fund we were quite accustomed to starting a discussion on any country, including a drawing on the country, by asking the Executive Director of that country what he had to say, assuming that he took seriously his oath of office, which was not only that he was an Executive Director representing his country but he was also an officer of the Fund.

OLIVER: I have a suspicion though that the notion that governments are not always totally trustworthy goes back to a period before there was a
Bank, back to the '20s when there were bad experiences by American investors and defaults on loans to Latin American countries in particular. There has always been in the Bank, I should have thought, a bit of a feeling of an adversary relationship.

FRIEDMAN: Yes, I think that it exists to this day. My point is that I think that it is part of this whole question of whether the Bank is a development agency. If you are a development agency, and you think of yourself as a partner with the borrower, then of course you recognize an advocacy role. In the Fund, we all had the same objective as a member country, namely, to improve the country. It wasn't an adversary role in the sense that what was your gain would have to be my loss. I found many things like that when I came to the Bank. For example, I was surprised to find that the Bank waited for others to come to make loan proposals.

We had long since learned in the Article 14 and the Article 8 consultations in the Fund that the real time for identifying the need for a drawing on the Fund was during the Article 14 or Article 8 consultations, when we are looking ahead to what the country was planning to do and what its balance-of-payments outlook was. If we saw that they might be in difficulty or that it would reinforce a pretty good domestic policy, if they had a stand-by with the Fund, we would just suggest it. We wouldn't wait for countries to suggest the use of the Fund resources, we suggested the use of the Fund resources, although nothing in the Articles of Agreement said that we were supposed to suggest it. We never suggested it in public, moreover. If anybody would say in public that this was a suggestion of the Fund, there would be an instantaneous denial that it had come from the Fund. A suggestion was coming in this informal way, in a way you could do because you had this advisory role. In advising the UK, (if you do this and we provide a stand-by), we didn't think of the Fund as a financial agency, but rather as part of the UK bureaucratic, administrative machinery, because the Fund was an international agency; and at that point of time we were trying to be as helpful to the UK as possible in light of overall international policies.

When I came to the Bank, I found that if I was sitting in the Bank and thought that it might be a good idea if a country were to switch from industry to agriculture, I would hesitate to say so on the grounds that I have to wait for them to come up with an agricultural project. This struck me as very odd, and it was one of the reasons why I felt so strongly that what we had to do was to have regular economic surveys oriented towards development rather than short-run balance-of-payments in which (what later come to be called a pre-identification stage) the economic mission would be able to bring to the attention of countries: maybe you want to be doing more in tourism, maybe you want to be doing more in agriculture. Incidentally, I deliberately mention tourism because a member country might want to do more of the things that the World Bank itself didn't finance, but that wouldn't mean that the mission shouldn't suggest it. It might mean that the country then got in touch with an international group like Hilton and said: "By the way, the suggestion has been made that perhaps we could capitalize on
this beautiful scenery we have and get another source of foreign-
exchange revenue. Would you be interested?"

OLIVER: So the job of development planning goes much beyond simply
planning for a single Bank loan?

FRIEDMAN: That is right. The thing that I was trying to get across
here, and I hope it got across to some extent: you could not offer
advice without a willingness to share the responsibility for what was
going on in the country. The moment you are the advisor, you can't
step away and say, "This is not my responsibility; I deal at arm's
length with the country." That is why the difference in viewpoint is a
very profound one. This is not a minor thing.

My feeling was that if you undertook to advise a country, and if
they followed your advice, you had the responsibility of trying to find
the development capital. You could then not walk away. That is why,
when I came to the Bank and found that there was only a handful of
consultant groups, one of my earliest recommendations to George Woods
was, we ought to have consulting groups for at least 25 to 30
countries. We shouldn't be concerned with whether we were the lender.
The important thing was their dependency on overseas capital,
particularly of a governmental character. If it was true, as in the
case of Colombia or Turkey, that you are not lending much yourself,
that has nothing to do with it. You still have the responsibility. If
you think the development program is reasonably good and you have
accepted an advisory role with the program — if you are urging it on
the country and then come to the conclusion that there is a deficit but
you feel that, because of the amounts involved, its project vs. program
lending and you can only make a very limited contribution, you go out
and advocate on behalf of the country; you provide the manpower and the
studies for this kind of work. We build the consultant groups
from a handful to more like 25 with this philosophy. The backup would
be the economic report. It was in that context, among others, that I
urged close collaboration between the Fund and the Bank.

OLIVER: I take it that these consultative groups were substantially
in-house Bank groups rather than outside expert groups who went in once
and never went back.

FRIEDMAN: That's right. My feeling was that the capability of dealing
with a country should be part of the permanent capability of the Bank.
You hired outside consultants because you couldn't hope that the
general staff would have all the detailed knowledge you would require.
For example, if a country had a particular problem in international
trade, even though you had a good economic staff on the country and
even though you might even have a specialized international trade
division, if you had spent six months studying there the protective
effects of their tariffs (that is how I put Bela Balassa to work on
that tariff study; it came out of that kind of situation), if you had
to take six months off or a year off to do some particular work, the
generalized staff could never be that big. Therefore, you hired
outside consultants for six months, a year, or even for years, to delve
deeply, but you would still have a basic capability in your
institution.
What I was surprised to find in the Bank when I came to it was that even in the field of development economics there was no basic capability. There was no economics department. That was part of the feeling that the thing to be in the Bank was a loan officer. I found that many, many a loan officer had a PhD in Economics, but he did not want to be recruited into an economics staff. They proved to be quite right the first few years, moreover, for, as they said, it would be a demotion in the Bank to be called an economist, a point of view, by the way, which exists to this day. I was told that there were no economists in the Bank that there weren't many, maybe 20 or 25—there were a few people like Drag Abramovic or John Adler, quite eminent economists, but outside of that there were no economists. So I asked them, Bob—I may have told you this story before—to send me a list of people with PhDs in economics. If I remember the figure correctly there were 150.

OLIVER: Out of how many?

FRIEDMAN: Well, I don't know because all I go on was—what do you mean? Professional staff?

OLIVER: Yes.

FRIEDMAN: At this time the professional staff was still in the hundreds. So maybe it was 1/4 or something like that, but it was a very strong core and with very good PhDs. People whose academic record, at least in the field, was very good, but who wouldn't be caught dead in the Bank being called an "economist." When I tried to recruit an economics staff from these people, I found very few who were willing to be regarded as economists; they told me that being an economist in the Bank was death for a career. It showed up in such things as the area departments. I was the fair-haired boy of Mr. Woods. I was brought in with a specific purpose, which he had outlined, of transforming the Bank from a bank to a development agency. That was my task.

OLIVER: Did he use those words?

FRIEDMAN: He used those words, exactly those words. Well, he said Development Assistance Agency. I told him at that time—it was at the lunches before I agreed to come—George, forget the word "assistance." Let's call it a Development Finance Agency. Assistance was a word that was already becoming unpopular by 1964. So he said, "Okay, we will say Development Finance Agency." No longer a Bank. He was most enthusiastic about IDA in this connection, because his vision was that the IDA should become more important than the World Bank. IDA financing should have a bigger role than ordinary World Bank financing. That was his vision.

OLIVER: We're getting pretty well into your career in the Bank now and I think that this whole question of the evolution of IDA is something we are going to want to get into in a large way. Before we do that, do you not, perhaps, want to retell on this tape the story you told me a bit ago about your conversations with George Woods and the anecdote of your conversation with your daughter? What induced you to come to the Bank?

FRIEDMAN: Yes, I think that is kind of fun. As I said before, I had
had great qualms—in fact I spent three months talking to George Woods before I came over to the Bank.

OLIVER: He, himself, had been in the Bank for a year or something like that?

FRIEDMAN: He came a year before, and he had come to the conclusion that he wanted me. He approached me about June, 1964, and it was at the end of August when I agreed. We were seeing each other quite frequently.

Of the various conversations I had at that time, one or two pop into mind. One was with my daughter, who by this time had gone to college. She had known about all the work that I had done for the Fund in Japan and the United Kingdom. She still remembered when I had collapsed: I had been sent out by the Fund to handle the Suez crisis without any instructions as to what to do and out of that came the largest story in the history of the Fund—the first major story, in fact. I collapsed afterwards and was sick for a year. So I was considered kind of a martyr to the era of convertibility and rescuing the pound and stuff like that. But my daughter's comment was, "Dad, do you really want to spend all of your life just helping the richer countries of the world rather than the poorer countries? Don't you think it would be nice if you would spend some of your time helping the poorer countries?"

One of the things I had not succeeded in doing at the Fund, I was trying to urge the Fund to become interested in a developmental role. I first proposed the idea that we have a special creditors policy for developing countries which, I am very happy to say, is now coming out again. I am very pleased when my former staff people point out to Mr. Vinedee that Mr. Friedman suggested this in 1962. It is kind of nice to have it come back that I had thought of this.

My experience was that we just had to see Article 14 as a mechanism for helping development rather than solely as a mechanism for pushing toward convertibility, because most of the developed countries were now convertible under Article 8. My daughter, Barbara, knew this too, since we always at home talked a lot about what I did. She knew I was a bit frustrated about pushing the Fund towards a preoccupation with helping poorer countries in a more meaningful way.

The other conversation, of more general interest, was the one with George Woods which I was telling you about. Woods told me one day at lunch that he had been called by President Kennedy before he, Woods, had accepted the position of being successor to Eugene Black. Kennedy had said to him something along the lines: George, I ask you — they had known each other — to become the President of the Bank, the World Bank, and the reason for it is that I tell you as one American to another that I, as President of the United States, believe that everything that we in the United States have done since the end of the War, including the Marshall Plan, to try to build a peaceful and stable world is threatened by the growing gap between the poor and the rich countries. If this is not solved, it is going to cause the collapse of all of our policies, including the collapse of U.S. foreign policy. We have to do something about this, and I think the World Bank, of all the
institutions available is the most promising (or words to that effect). This is our chosen instrument, and I want, you, George Woods, to be the one to make the Bank be a bridge between the poor and the rich countries. Then George Woods pointed to me and said, "And I want you, Irving, to be the one who helps me to build that bridge."

It was also, by the way, at that time that he defined for me this concept that he had this very broad concept of the evolution of the Bank from a bank to a development finance agency and why he felt that people in the Bank could never do it. As he put it, "The people here don't see the image that I have. I think that you can't have a development agency unless it has as its fulfillment the loans which are being made, but one wing has to be project work and the other wing has to be economics. They won't let me have an economics wing, and I don't think that we can have a development agency that has no economic staff capability," which is very interesting.

OLIVER: Who are the "they" that wouldn't let him do it?

FRIEDMAN: The staff of the Bank, the Senior Staff. The only guy in the bank who was for this was Dick Demuth. The only guy who had this vision was Dick Demuth. It was my sense of it that practically everyone else on the top side didn't go along, but they didn't understand what he was talking about. Dick Demuth had a more limited vision of the thing than Woods had. Dick Demuth's idea was that you build a few economists into the place, and they write studies—that is the way you do it. He had no vision of country work and things like that. But at least he shared the vision of the transformation of the Bank from a purely banking institution to a development agency and I think, perhaps, it was partly because—at least other people tell me—Dick had had a lot to do with the International Development Association; he must have done a lot of hard thinking in terms of the IDA and the recognition of the poverty problem as against just the developmental problem. He seemed to be quite receptive to this idea. We later had very sharp differences of views on how to do it, but it wasn't a question of whether we should do it.

With the others I felt for a long time that they had no idea of what we were even talking about. To them the Bank was the Loan Committee—with extremely careful project work, tremendously laborious legal work—legal documentation for everything we did—very, very careful accounting, emphasis on auditing, a great deal of feeling that we can account for every nickel spent: anybody can come in at any time on the accounting/auditing level and examine our books and find that we run a Bank of the highest integrity. There was just no doubt about that. These fellows—what they were proud of, they were very correctly proud of: The Bank was an institution of the highest kind of personal integrity, but the fact that you can go for seven years without making a loan to Brazil, or that you wouldn't make a loan to Greece because they still owed you five bucks from pre-war debts, that didn't seem to bother them. They were just being good, hard-headed bankers. The idea that, in the meantime, you were losing the opportunity to help the economic or social development of a country, that wasn't their job.

Woods did have a vision of the Bank, and I honestly don't know
where he got it. I don’t know—he never quoted anybody. I don’t know whether this was a personal inner vision that he had from his own experience. Remember he had worked on India for the Bank and he had helped the Bank advise on the Suez Canal; he advised the Bank on the Philippines. He was a close friend of Eugene Black, and Black went through in my opinion, a great metamorphosis. The narrow banker of 1950 is not the guy who leaves the Bank in 1961-62. It wouldn’t surprise me, Bob, to find that actually this could have been Black’s vision by the time he left the Bank. He became quite convinced the role of the Bank was different from what he believed earlier.

OLIVER: It is my impression that Eugene Black did have a substantial change at about the time the IDA began to be talked about, which is 1958-59. I think you mentioned earlier, though, that when George Woods came he felt that the staff of the Bank behaved too much like a country club. There was not enough concern for the fact that the Bank had no defaults, for example, which is symptomatic.

FRIEDMAN: George Woods obviously had a deep concern of how do you transform the Bank into a Development Agency. Question one is, How do you do it? and two is, How do you do it with a minimum amount of hurt to the people in the staff? He was not a modern manager. He wasn’t a guy who went in for tremendous restructuring. He sort of added me on, so to speak. He left other people alone. But how do you work with the people you’ve got when Woods felt that they weren’t really understanding what it was he was trying to do? Woods would point out that development should be like the war effort. He had been in the war effort and felt that in some way you ought to tackle this with the same degree of commitment and dedication and verve. He wanted us to work hard, work weekends, work nights. He didn’t find this. He found what he called, disparagingly, a country club atmosphere. How do you change this? He threw the ball right into my hands. That is one of the reasons it became such a fascinating assignment. He said, "I am giving the assignment to you. You can go out and hire as many people as you want, any kind of people you want, because I am not going to do it with these people. I need new people who will do it." He said, "You go out and hire the kind of people that you think will do it. And you will have my support."

OLIVER: I am sure that this is a more apparent than real contradiction, but on the face of it, it sounds as though the earlier statements that you were making about the ability of the President of the World Bank to run things in an American industrial management sort of way with a very subservient staff was contradicted by George Woods’ own experience. You are now telling me that when he became President of the Bank he was unable to move the staff to do the things that he wanted to do.

FRIEDMAN: I think that is right. I think that the reconciliation of the contradiction was that—and it came up so many times in concrete cases—Woods clearly never felt confident that he could formulate how this transformation should take place. He was always defeated in debate among a small group because they always knew more about development banking, in a sense, than he did. He could always defeat
them on bond issues and on the financial structure of the Bank. But when question would come up, Should we have missions to a country, economic missions? or What do you say when Compos comes up, as he did in an exact case and opened the discussion with: "Can’t we break the ice between the Bank and Brazil?"

What do you do with Carloy, for example, in 1964? The Italians were in balance of payments difficulties, and Woods was prepared to take on the assignment as President of the Bank of helping a developed country that is in financial difficulties on the grounds that it is one of our members. He did it by himself. That kind of thing he was comfortable about, because he was talking about things that he knew about like access to New York commercial banks. But when it came to these other developing countries and the new countries in Africa . . .

He knew a little bit more about India, so he used to have his own views on India. In fact he was the one who started the Bernie Bell Mission to India. He knew the Indians could use this kind of thing, and it was very helpful to the Indian Consortium. He was the one who got Lieftinck to go out to Pakistan to do this work in the Indus River Basin, because he felt he knew a little bit about these things.

But most of the world he felt very ignorant about, and I think part of what he wanted from a person like myself on the staff was a kind of intellectual support and guidance. "You really can’t tell Irving Friedman about how you can’t do this with a country; he’s been doing it for 15 years." That’s what he would say to me. "I need someone," he said, "that has more reputation than anyone in this Bank, and you’ve got it, and you can get me other people with reputation and with authority and when they speak, people will have to listen." I think that once he got in command of that kind of staff, there were certain things he could order done, but even then, of course, despite what I said before, no President is all powerful.

In a sense all presidents work for their staffs. I am not sure that Mr. McNamara runs his staff as thoroughly as Mr. McNamara thinks he runs his staff. Nevertheless, the Bank is still run on the principle that the word comes down from above, and, at the time of George Woods, the Senior Staff, at least in conversations with him, were quite deferential to his point of view, but they weren’t coming up with suggestions on how to do it. In fact, when you made a suggestion on how to do it, you usually came up with a good deal of opposition or criticism of what you were trying to do. There were a number of favorite projects of Woods and myself, for example, the Supplementary Finance Proposal, which was completely sabotaged by the Bank Senior Staff.

OLIVER: What was the Supplementary Finance Proposal?

FRIEDMAN: You remember there was a proposal made by the British in 1964 that something be done about export short falls which would disrupt development. That was the language of the resolution. The task was given to the World Bank to come up with a proposal. The staff was first to examine the merits of the idea, then, if they thought it meritorious, to come up with a proposal to implement it. One of my first assignments was this proposal. I saw in this idea of
supplementary finance to offset export shortfalls disrupting development and creating a real entree, just like the Article 14 consultations in the Fund. We were being invited to play a broad role. We were not going to have to be aggressive. This was a unanimous, untied resolution. Sure, the French would reserve their position on what the outcome would be, but everyone had voted in the end for it, including the Eastern European bloc countries and including all the developing countries. So we worked very hard on it, and it was in this proposal that I first came up with the idea that the Bank should have a developmental role. We should help formulate developing programs and policies. We should share the responsibility for developing programs and policies. We should undertake to defend development in every way, including financing export short falls. **Countries should have access to the World Bank on an automatic basis as long as they were following agreed development programs.** At least in this field of so-called supplemental finance, we came up with a concrete proposal for the amount of money it would take. **This would mean regular reviews for countries.** I could see that this was just like Article 14, it was a God-given opportunity to advocate annual reviews with countries or regular reviews in response to the world community asking for this kind of thing, because it didn't exist at this point of time.

OLIVER: There were no annual reviews at all?
FRIEDMAN: None. None at all.
OLIVER: Today there are annual reviews for . . .
FRIEDMAN: . . . everybody. In a sense, we have regular reviews, annual, biannual, triannual, with everybody. No one gets left out.
OLIVER: Including the major lending countries like the United States?
FRIEDMAN: No, including just the borrowers. You are quite right. That is a very wise comment. We might talk about that as to the wisdom of that hiatus or lacuna in the bank. At this point you don’t even have it of potential borrowers. So I explained this to Woods, just like in the 1950-51 Article 14 consultations, that you opened the door and if you just walked in, you were there. **As long as you start talking to countries about their development programs and policies and advise them on policy, by heavens you are a development agency.** You would find yourself being an adviser to the whole world, not only to the country but to every financial agency assisting, and eventually also to the private sector. The private sector would start looking to you, because you would know a helluva lot more about the country than anyone else outside of the country itself, and they would regard you as more objective than themselves, just as the commercial banks of the world look to the Fund. Just as the Fund had a judgment on a short-run balance of payments, the world would begin looking to the Bank as being the developmental agency and knowing about countries. Woods just loved it. He said, "Oh, this was exactly it." He just raved really at that time. To this day he is in great support of the idea.

But opposition came from the Senior Staff. First, they said it was a threat to project evaluation. It would mean program lending. Secondly, they said it would mean that IDA funds would be used for this kind of purpose instead of for project purposes. They cornered me and
said, "We can only go along, Irving, if you can commit yourself that any money for this purpose would otherwise not have come." That was virtually asking for the impossible, because I didn't know how much money would come to us otherwise. I tried to suggest that this would be an additional argument for a bigger amount for IDA because supplemental finance had global support, but even that fell on barren soil. They wanted firm commitments that in some way this thing would be different. They said, "You mean that we are going to undertake with countries to discuss their development programs and share the development responsibility?" My answer was, "Yes, that is what we are going to do, because that is what we are in business for. George says he wants us to be a Development Finance Agency. What do you think a Development Finance Agency is supposed to do?"

At this time we had an Economic Committee and all this was related to it. The Economic Committee and the Chief Economist of the Bank were supposed to sit in on discussions of every country. Every country was supposed to be reviewed and a judgment passed on its economic situation, outlook, condition, behavior, performance, before any loan proposal could come before the traditional Loan Committee. But this was so painful to these people that they wouldn't even attend the meetings of the Economic Committee. I issued a standing invitation to these people, some of these senior people, to come and sit on the Economic Committee, and not one of them ever accepted the invitation. The economists came and I got the Monetary Fund to send people, but I couldn't get the loan staff to come and put in what they knew — they knew a lot — on the grounds that they were so completely outraged by the idea — outrage is too strong a word, but they just found it difficult to think that before a loan was made in the Bank, you first had to have a judgment of the economic situation in the country; that creditworthiness was not just an arithmetic of the earnings to exploit earnings for servicing but was actually a much bigger and deeper concept of the whole economic outlook of the country; of the use of capital, and the kind of results it would produce, both domestically and internationally; and that only an economic analysis could really give you an end judgement on creditworthiness. It couldn't be as though it was being ground out a tube on the basis of purely external debt models in which you just related external debt to servicing. All of this was going on all the time and people found it very difficult.

OLIVER: Let me ask you one quick question. One additional objection that they might have raised, it seems to me, is that in Eugene Black's period, the Bank could frequently chastise unruly borrowers, as it did in the case of Brazil and Turkey, by simply refusing to deal with the country at all. Your program of annual reports would have reduced the leverage the Bank had.

FRIEDMAN: Absolutely. I was fully aware at the time, and I am fully aware now, that basic to the whole thing was, as I was saying before, that you are not negotiating with a borrower, you are dealing with a member country which has problems, and you are trying to help him. I don't negotiate with my doctor. In the Fund I was very proud to be introduced as a money doctor. What I wanted to be introduced as now
was a development economist doctor, helping to deal with actual problems, not as someone who was trying to make a fee from my transaction, but as someone who was trying to be as helpful as possible. The concept of sanctions to me has no place in the Bank whatever.

OLIVER: Would you say a bit more about the concept of a development institution as distinct from a bank and discuss some of the major events that occurred to help the World Bank evolve in that direction.

FRIEDMAN: I think, Bob, perhaps one way of getting at this, without trying to get at a very simple definition, is what was involved in trying to change the Bank from a bank to a development finance agency. The Bank is a special kind of development agency. Perhaps it ought to be stressed that it is a development finance agency as against an environment agency, a Food and Agriculture Organization, a World Health Organization, or a UNESCO. They are all multilateral development agencies, but the Bank doesn't ever escape from the fact that it is a financial agency.

OLIVER: It impressed me, though, in our earlier discussion, that you had helped evolve the Bank into a good deal more than what I would have called a development finance agency. You were concerned with helping countries evolve development programs without necessary respect to what part of the program the Bank itself would finance.

FRIEDMAN: Yes, I think that is right. But I think that in being a development finance agency you had the benefit of what you want to do in the field of development as such and you have the financial resources to implement. Many of these other development agencies may be extremely well intentioned and indeed very thoughtful and helpful in what they suggest, like the World Health Organization or the FAO—they are really doing splendid work in the world food program, but without the financial resources to implement it. A development finance agency never gets away from the problems of raising the money for what it wants to do or, in the end, being judged to some extent by its financial success or behavior.

This leads me to, perhaps, the main point, which is I think that in the transformation of the Bank from a bank to a development agency, or a development finance agency, the most important single thing is probably the change in the tests of success. In the case of the Bank, what had been regarded as the test of success was the ability of management to float bonds successfully. That meant magnitudes and the rate of interest at which you can borrow, or opening up new areas for investment, as in the United States which had previously had prohibitions against international investment. The really remarkable and good job had been done in the early years of Black's presidency in this respect. Another test of success would be the magnitude of loans. How many loans did you make? How many projects did you help finance? Whether you were repaid promptly or whether you were repaid at all. The degree to which you may have improved the creditworthiness of your borrowers from a commercial point of view: countries like Australia and Japan, which first borrowed, could then sell their loans to private investors, first with recourse to the Bank, but then without recourse
to the Bank. Getting a borrower from the category of being a borrower whose loans could only be sold with recourse to the Bank to being a borrower whose loans could be sold without recourse to the Bank, like Australia, is from a financial point of view, a banking point of view, a success because through your financial operations you have helped to make your borrower more self-sufficient; he is able to borrow more broadly at lower rates of interest, and so on.

In a development agency, your test of success is really quite different. It doesn’t deny any of these things, but it really is different. The test of success is: What do you contribute to the development progress of the country? The mere fact that the country is servicing a loan, but, as might very well prove to be the case in the future in many cases, the loan may be serviced at the expense of the development program; if very scarce savings of the low-income community are being used to service the debt that would be a banker’s idea of a good thing, but, from the development point of view, it might be quite a bad thing. Similarly, it would be a bad thing if you were servicing a World Bank loan by using the foreign-aid monies that had really been earmarked for other aid. So, therefore, in the development agency the terms and conditions of loans become very important. You become more concerned about whether you can give the money on concessional terms than with whether or not you are going to be repaid on whatever terms you extend. The emphasis of the World Bank Group changed after it became a Development Finance Agency.

One of the first things I worked on under Mr. Woods’ instructions, one of the first jobs he gave me to do, was to make a case for the IDA replenishment, for the Second IDA Replenishment. At that time IDA was only $250,000,00 a year. Could we go for a much bigger IDA? If so, how would we justify it? This got us involved in that whole dispute as to how much more development assistance was needed by developing countries, all sorts of different figures being put out by different kinds of authorities, like Prebisch, UNCTAD, the UN, etc.

Concessional vs non-concessional solely from a banking point of view really doesn’t make very much difference in the whole dispute between project lending and program lending. From the banker’s point of view, you make a loan that is going to be repaid; he is not as interested in the usage of the loan. From the development point of view, the usage of the loan, and using the usage as a leverage to help a country perform better, even what you mean by a performance criteria— all become different. In a development approach your performance criteria relate to your social and economic development objectives. In performance criteria a narrow banking point of view might relate to such things as improving export capacity, or reducing import needs, on the grounds that if you were more self sufficient you were going to become more capable of servicing debt. That is a very narrow banking approach to debt servicing. If you are a development agency you are much more concerned with whether the leverage might be to increase domestic savings as a means of increasing domestic investment. Domestic investment may be in social capital, and, for some time, or maybe a long time, there is nothing to improve your
export capacity—the result may even be to increase import needs. But the reason you are emphasizing social capital may be because, from the viewpoint of a social and economic development program, you have identified that as a very high priority need of the community, or of the nation. All the tests of success become different, and I found that one of the hardest things in the Bank, it still is a very difficult thing in the Bank, is to turn away from the banking tests of success to development tests of success. I think it is partly because it is so hard to measure the contribution of any one external agency to the development success or failures of any country. In some ways it is an act of faith.

In the Bank, for example (I may skip a little), one of the end products of all this is not talking about the amount of foreign exchange the Bank lends, but trying to measure what part the Bank plays in the total investment program which is related to the foreign exchange obtained by the Bank. In some way you are trying to get a better measure than the narrow measure of the Bank money itself. Still they are all inadequate measures, because things like whether or not Pakistan is kept together or whether it falls apart is never measured by any of these things, and that might be more important than the development of a country, even then the broadest measure starting from the banking point of view.

I think I told you an anecdote about this point. Woods was presiding at a Board meeting. The Chairman of the Loan Committee, who at that time was Burke Knapp, in the very traditional way of the Bank—nothing unintelligent about it—very traditionally commented in defense of the Bank's program that we had never had a default. Woods stopped him right in front of the whole Board and turned to Burke and said, "Burke, I am not sure that is anything to be proud of, because we are a Development Finance Agency. Do you really think that a Development Finance Agency ought to measure its success by the lack of defaults? We shouldn't be that concerned with whether a country is able to service a loan. We should be more concerned with what good it is doing for the country." Woods said this to the astonishment of many of the Executive Directors who had never heard a President of the Bank say this in front of what was really all the member countries of his Board without asking them to keep it confidential or anything like that. Coming as it did from a fellow who was preeminently a banker in terms of his own experience and background... So this came up in many different ways. This is one way of looking at it.

The other way is that if you were trying to transform the Bank into a development agency, there are certain things that you very clearly have to do. One is that you have to get much more concessional assistance. Secondly, you have to develop an economics staff, and by the why here I include as economists also population experts, urbanologists, foreign trade experts, indeed, even sociologists—I am not using economists in the narrow sense of the word, but as against engineers, lawyers, accountants, and what might be considered the normal intellectual input of a Bank. You have a much broader kind of
intellectual input in a development agency.

We had to develop an economic program of the kind that we were foreshadowing in country reviews on a systematic basis. We needed a definition of what is a country review. We had great debates about that. From a banking point of view, a country review is adequate if it gives you the basis to make a loan. From a development point of view, a country review is only adequate if it helps you judge the development program and development policies and their implementation and helps you give advice on how to modify these things and adapt them to changing conditions. The first one is a very unambitious type of review. The second one is extremely ambitious.

Indeed, we had soon to put a limit on the number of people we could spare on a mission because we found that—well, we had people like Abramovic heading missions of 25 economists on one country. Now this just wasn't practical when you are talking about trying to do this for 80 or 90 countries. The first kind of review you could literally do with one person; one person and a statistical assistant could do the narrow kind of review—a simple background as to why you are making a new loan to a development institution like the Fomento Corporation of Chile. You weren't really passing on to Chile a development program or outlook or long-term capital suggestions, all of which are involved when you talk about a development program including the strategy and implementation of policy. So we had to develop our economics staff.

We had a few general economists who were not involved in projects. There was a Commodity Division, an External Debt Division, and a little bit of a Statistics Division. That's all. I don't think there were 20 of them. Within four years I had recruited over 200 people for the general economics staff and then insisted, not always successfully, that there ought also to be important economic staffs within the area departments that were essentially lending departments. Even to this day this is a great issue within the Bank. To this day, in my opinion, the economic capability of our area work is deficient because loan officers still find it hard, because of all the tradition, to accept the idea, that, when you actually get down to the hard nut of making a loan, an economic officer is not just a background or useful person, he is a vital part of the intellectual input on the desirability of the loan.

It came up just yesterday in a lecture I was giving. Just yesterday I was talking about development banking and the person in charge of the banking department of our Development Finance Corporation made the point that what Irving Friedman had said about a development finance agency—development banking against banking—was quite right. As a matter of fact, he said, if you went around and talked to the people in the Bank, you wouldn't figure they were interested in development at all. He said they are still interested in the magnitudes of loans that they make and in the projects they are financing, though they try hard to keep in mind that they are supposed to be a development bank and not just a bank. So these things are not easy to accomplish.

Another thing that was interesting at that time in this
transformation, and I think it is still valid, we started a process that still has a long way to go to work itself out, and that was taking an economic approach to policy questions. For example, on projects vs program lending: in the earlier years it was really a practical question. A country like France came along and said, We want to import this, this, and this. We need foreign exchange in this and this. Will you give it to us? The initiative came from them. Indians would come across with so-called industrial import loans. We need this to keep our capacity going, we're short of foreign exchange, and we don't want to go to the Fund; we can't afford to go to the Fund. How about doing it? We'll call it an industrial loan.

The moment you get economists involved, they want to know which is better from the point of view of the development strategy of the country. Should you be doing program lending, should you be doing project lending? They are interested in such things as the various gaps which exist in administrative ability, in management, in the staffing of a project. They want to know what kind of secondary benefits, what kind of social, economic benefits you may get from the project—benefits which are outside the simple financial cost-benefit analysis. I found this was just growing like Topsy in front of me as we were doing this, all these additional social and economic costs and benefits, because the moment we started to talk about a development attitude, the traditional cost-benefit analysis, which was suitable for the Bank, became, not wrong, but just inadequate. You couldn't stop with that. You just had to go on to other things. You got to the point where you started to ask yourself such questions as, Well, what about if it causes eye disease, like the Volta River did? What if it creates an environment in which too many people will flock to the cities and you get overpopulation? What if we are encouraging excessive population in the country and we are doing nothing on family planning? All of a sudden economics gets involved in project work. You are now millions of light years away from the sort of thing that a bank considers, or which the World Bank had ever considered.

As late as 1967, Bob, I could not hire a population expert at the Bank because our traditional officers, whom I had to contend with in this sort of thing, in spite of the support of the President, said there is no place in the World Bank for a population expert. This Egyptian fellow, Zaigon, comes on about 1967-68 and he is the first guy that I can hire. At this time with the strongest support of the President, and even though it is a President-dominated institution, as I said before, yet in some way these people find it so difficult to accept.

Take another kind of question. Take margins of preference, of which you are well aware. What kind of margins do you give to a domestic supplier in a less developed country as against a foreign exporter, a foreign supplier? We had a simple rule of thumb of 15 percent. From a banking point of view, absolutely sensible. It had no logic, but it was internationally acceptable; it was a rule of thumb. Immediately when you get to an economic development or a social development point of view, you get into the whole question. But the
moment you opened the Pandora's box that I opened by saying that it ought to be a development finance agency, they begin to insist on an economic approach.

In the Bank we had a simple rule. We financed the foreign exchange cost of the project. Then that meant that very small projects, or projects with a low foreign exchange content like education, got cut out. Then we found that, from the point of view of strategy, what we wanted to do is encourage education. But you can't make a big loan in the field of education in terms of foreign exchange. And so painfully, very painfully—it is still going on in the Bank—it begins to push the Bank, to say, well, maybe one way of doing this is that we don't really have to confine ourselves to foreign exchange. It was this kind of thing which led, as I mentioned before, to supplementary finance. It led to our proposal that countries could effectively use $3-4 billion a year of additional capital of which we thought that 50 percent ought to be concessional, or about $1-$2 billion; and out of that, 1/2 ought to be given to IDA. That is how we got to the notion that the new IDA replenishment ought to be $1 billion a year.

OLIVER: May I just ask you a couple of questions for clarity? You have so many ideas going now, I want to make sure that we are absorbing them all as we go. I have two questions. To play the Devil's advocate, I am wondering whether this change was as abrupt as you are making it sound, the date being something like 1964. Given the fact that IDA had been started as early as '59 and, I suppose, conceived earlier than that, and there had been discussion of education projects well before 1964, as I recall, there must have been some thinking in the Bank even before '64 along the general lines that you are talking about. So I am asking, How abrupt was this change?

FRIEDMAN: I completely accept the point that it was not abrupt. I think the difference is—I think I dare to say—you have done a lot of work on the early history of the Bank—there probably is no idea today that isn't to be found in the mind of someone that you read about in 1945. It is just a question of what you emphasize. Back when Woods got this idea that he wanted to transform the Bank, he wasn't creating anything de novo, he was just taking certain minor trends in the Bank and making them major and recognizing that if he made them major it was going to be at the expense of other things in the Bank.

He told me when I first came, "Irving, if we can't have a big IDA, I don't want an economics staff, because I don't think, as long as the Bank is bigger than IDA, we'll ever transform the Group into a development agency. The World Bank as a bank, with its concern about repayment of debt, its own creditworthiness, and so forth, is going to find it very difficult to do the kind of things that you and I have just been talking about.

OLIVER: If there had not been the creditworthiness investigations, nobody would have been that sure that concessional loans were really necessary to supplement the 7-8 percent loans.

FRIEDMAN: Absolutely. That is what I said before: maybe this whole
idea came from Eugene Black, or some other people that were in the Bank long before I. What I am saying is that Woods recognized that if you wanted to build up concessional loans, it was going to be at the relative importance of the World Bank loans and World Bank activities, and that things like economic work would grow in importance relative to loan work. That didn't mean that the Bank didn't do any economic work before. There was nothing totally lacking in the Bank that I found, including concern for population.

Woods had been interested in population long before he came to the Bank, and I dare say Eugene Black had been interested in population—or urbanization. They had rationalized education by building some medical facilities in the Philippines before I came there. But all of this was regarded as very exceptional. The core work of the Bank was still public utilities, roads, power generation, agriculture to some extent, and the beginning of some industry. The broad notion of a Development Finance Corporation being financed directly by the World Bank with the DFC being the intermediation between the Bank and the country as a means of being able to pour more in capital more rapidly and also to have more impact on the management of the whole industrial structure comes not as a new idea, but it flourishes at this time. In the same way, they already had consortia before this and some consultant groups, but now instead of regarding the consultant group as the exceptional thing, the consultant group tends to become the normal thing that you aim for for any important country. It is a shift in emphasis, but when it is all added together you get a very different kind of institution, much more complicated. And it is so gradual, Bob; you are so right about it, it still goes on. Many of these things are still very turbulent. Issues within the Bank in which the future course of Bank activities in this field are still very much under evolution.

OLIVER: Can we then come back to where you were? Could you explain in more detail how you arrived at this number for the Second IDA Replenishment. I think you said $1-$2 billion was the goal, per year.

FRIEDMAN: I found when I got to the Bank that one of the things that was really hampering the whole development assistance effort was a great controversy on that how much more development assistance or capital was needed by the developing countries. There were all sorts of figures. The OECD had a figure, the traders had a figure, the UN had a figure, and, if I remember correctly, they varied anywhere from 0 to about $10 billion or more per year.

I hit upon a new approach, because I was impressed as soon as I came to the Bank with how much knowledge there was inside the Bank about countries. They really knew a great deal about countries, even though they had not gotten it through systematic country surveys. Even loan officers, many of whom were economists in their professional training, knew a lot about their countries. So I decided, from my experience in the Fund and the Bank, to begin to draw on my two reservoirs of knowledge. We could ask the simple
question, How much more capital could countries effectively use? Not by having some kind of guesswork as to what capital-output ratios were or what their import elasticities were, all of which were highly problematical and were really in disrepute by this time because the US AID program had tried to use them and gotten into a lot of trouble in trying to formulate the need for development assistance on the basis of this kind of uniform models.

I developed, with the help of some of my staff people, like Ravi Gulhati—he’s Indian—and Bob DeVries, a rather simple model for every country by asking the question, What new investments could be made which are in sight but are not getting made because of a lack of foreign exchange? This was tested by going to each loan officer and asking him to list from experience what investment projects he personally knew of that were being held back—which in his opinion were worthy of being financed and yet were not being financed because of lack of foreign exchange. I then took my answer to the corresponding guy in the Fund, the desk officer, to find out whether he thought that was a sensible judgment.

OLIVER: Did you also ask the question of what projects would be worth doing at 8 percent as distinct from 2 percent?

FRIEDMAN: Then the second question was, Which of these countries are in the position to take on debt on existing Bank terms, and which of these countries would need debt on much softer terms? The answer we came out with was that in the sense of additional effective use, which was a minimal concept (obviously there might have been a lot of things that might have been beyond the scope of experience of either the Bank or the Fund people), that we got to a figure of 3–4 billion a year more—this is 1965—which could be used. It became the standard figure in all economics after that, and almost every figure since then has been a rectification for price changes or for increased absorptive capacity. Using that figure, and, applying the need for concessional aid, we came out with the figure and applying the need for concessional aid, we came out with the figure that, out of that 3–4 billion, about 2 billion ought to be given to concessional countries, including all-important India and Pakistan, in the total less developed world. At this point they were accounting for about 64—well, over 50, closer to 60 percent or more than that—of total foreign assistance. So at this point of time we got to the figure of $2 billion.

I suggested to Woods, that, purely as a practical matter of negotiation, we go for half the amount; it didn’t look like we were saying that the total job of concessional assistance should be done just by the World Bank Group. You would say, we are prepared administratively, and this was checked out with our administrative people, that we have the capacity within the institution to handle a billion more dollars worth of lending of the kind that we were doing, leaving a billion dollars to others, whether it was the multi-regional banks, like the Inter-American Development Bank, or other institutions, or national programs. And that is how we got the figure of a billion dollars regarding replenishment.
Woods had never felt—he was very clear in saying this to me at the beginning—we never expected to get the billion dollars, but what we tried to do was to make it clear to the world that to go from $250 million, as was being suggested at that time both in American and European circles, to another 25 percent or 50 percent (even at that time $400 million was considered a very, very, high figure—), this had nothing to do with the size of the problem. The size of the problem for concessional aid was $2 billion in 1965. Coming out for $1 billion, we were in effect taking a modest position.

We were never dislodged from that position intellectually. We got in the end every country in the IDA replenishment to agree that what was needed was a billion dollars. As you may recall, we got even the United States to agree in principle that it ought to be $1 billion, but the way it ought to be done was, over three years, to go to $600 million, $800 million, and a billion dollars. The defeat of that came from the Europeans who refused to go along with this increased amount. The French and the Germans, but particularly the French, were most adamant in not wanting to agree to this large increase of IDA, but never on the grounds that it wasn't needed, only on the grounds that concessional aid could be given in other ways like commodity agreements, higher prices for raw materials, and bilateral assistance, rather than through a multilateral agency. It was at that time that they again came up with the idea that the Bank and the IDA were, after all, American dominated institutions, and why should they be making them....

OLIVER: What is the year you are talking about here?
FRIEDMAN: 1965-66. Of course it takes years to replenish, but the intellectual debate is '65-'66. It is in 1967 that you get the agreement, and it doesn't get implemented until 1968-69.
OLIVER: But was the Development Assistance Group of OECD raising its sights at the same time?
FRIEDMAN: The Development Assistance Group, which at that time was under Willard Thorp—I remember having lunch with Woods and Willard Thorpe; this was a lunch that Woods gave for Willard and to which he was kind enough to invite me—and Willard was taking the attitude that he completely agreed with the idea that we were going for a billion dollar ride. But he suggested to Woods....
OLIVER: And essentially $2 billion overall?
FRIEDMAN: ... that in view of the political views in the United States against foreign aid which were already quite strong at this time (I forget the exact date of this, Bob; it may be 1966) I would guess, within six months in 1966). Willard said to George, I will come out in my annual report, George, if you would like, and suggest that instead of concessional aid in the US aid program such aid be given through the IDA. But Woods turned him down. Woods said, "I want you to remember, Willard, that our $1 billion figure is not the total need. You and I, from where we sit with our responsibility, have to keep on pointing out that the need is for much more than a billion, it is for $2 billion. What you should be saying, if you want my advice, is that we support the Bank's request for $1 billion for IDA, but that is not enough.
Bilateral programs ought to be increased as well, because the Bank is not suggesting a sufficient amount to do the job. Once you give the political people the idea that the way to finance IDA is by cutting their own programs, the total amount of assistance to countries is not going to increase, we are just going to become more important, and that is not our job. Our job is not to become more important, our job is the whole development program of the world. This is another example of what I meant by a development agency approach as against a banking approach. We aren't concerned with the magnitudes of what we were doing, we were concerned with the total we could get.

Now this, as I say, is about 1966. Then it gets all tied up with the question of the U.S. balance-of-payments difficulties and whether the monies that we should be getting should in some way be related in balance-of-payments performance or behavior, and whether in that sense, they should be tied or untied. We end up finally by getting a smaller amount, but it is interesting that the billion dollar benchmark becomes the benchmark for all future replenishments.

OLIVER: One last question about that benchmark. As I understand it, this was arrived at by simply asking the question, What useful, foreseeable projects could be put in motion if this level of aid were available? Was the additional question asked, What kind of rate of growth is necessary, rate of growth in real gross national product, and was the answer to that question also related to these projects that are foreseeable?

FRIEDMAN: That is right. That is what I meant by the simple model—I have given you much too partial an answer. In that model one of the things we asked was not a theoretical model of, Let's assume a 6 percent growth rate, which was the sort of thing that was very fashionable at that time. You are now in the first development decade with its own 5 to 5-1/2 percent target, whatever it was, for development. But rather, I said, let's ask the question of our economists or desk people in the Bank and the Fund, What growth rate do they think is attainable in their countries? In terms of conditions in their countries, what is a reasonable growth rate? In Korea, the answer might be 3 percent, so let's not build into the model that the acceptable growth rate will be 6 percent and work back from that, let's ask what these countries can do? And then out of that, get a notion of what might be considered the gap, the balance-of-payments gap or the savings gap—we did a two-gap model in that sense.

OLIVER: What sort of weighted average growth rate turned out, though, from the procedure you followed?

FRIEDMAN: I don't know whether we ever calculated the weighted average growth rate, but what we got was that the range of growth rates were on both sides of the UN Development decade. In other words we found with some countries like India you are talking more like 3 to 4 percent, and with some countries you are talking as much as 15 percent. I don't think we weighted it by population or national income, but we did find that it had proven to be desirable not to get locked in with one particular growth rate; every country had its own, and then we corrected the gap we got from the growth rate, the feasible growth rate.
based on feasible projects. Let's say you got a gap of a billion
dollars a year, more like the Indian figures—but actually you couldn't
see projects for more than about $600 million, then our answer was,
"Well, maybe this growth rate simply isn't feasible, because we can't
see the project absorptive capacity." That is what I heard at a
lecture today. It was exactly what happened in India: the growth rate
that people thought was feasible was really not feasible in terms of
the absorptive capacity of projects. Now for me that argued for more
program lending. To people who were devoted to projects, it meant
cutting back the expected growth rate because you don't have enough
absorptive capacity. That controversy is still going on. This is what
I would regard as the development agency approach, but we didn't do
this kind of weighted average stuff.

Incidentally, we were very embarrassed at the time because I was
personally blasted by the Development Assistance Committee which asked
in a private communications why we didn't publish the study? I didn't
publish the study because it was the first study that had ever been
done country by country. The only way I could prove the validity of
the study was to list every country -- because we did it for every
country -- and give the figure that we had of what it needed to do in
the way of project financing. I thought that would be political
dynamite -- a Part One country would be furious at the idea that we
would put out a figure for Ceylon that was three times as high as they
were financing. We put out some figures for some countries in Africa
that were five times as high. Therefore, we could say how we did it,
but to this day I have kept that table secret, and to this day people
complain about the study on the grounds that it wasn't well done simply
because we hadn't been prepared to make it public. I wasn't prepared
to take the responsibility. I wouldn't let anybody. When they tried
to propose it to me, I vetoed the idea of publication. I've had some
of our academic friends, even those writing histories of the World
Bank, say, "This isn't well done; if it is well done, why don't you
publish the list of the countries so that everybody can comment
thereon? "To me this is the height of naivete. What we were
interested in was not academic scoring, if you don't mind my saying so.
We were interested in getting more money for IDA. We did know that we
asked for less than what was needed and could be used. It was going to
be mighty tough to get even a substantial increase in IDA because we
were starting from the point that most countries assumed that the IDA
replenishment would be short lived.

There was a very interesting question--may I digress a moment
here? I don't know whether this has been noted before--I don't think
it has been noted in anything that has been published. The question
arose, should George Woods be the one who tried to get the money for
IDA? In the previous experience, it had been the American Secretary of
the Treasury who had done it, people like Douglas Dillon who had really
negotiated the increase in IDA as the principal contributor. Black had
played a relatively minor role on the financial side. He obviously
must have played an important role in advocacy, but he didn't take the
responsibility of putting it together. Secretary-of-Treasury Fowler
asked Woods to put it together on the grounds that, because the U. S. was in such balance-of-payments difficulties and we were in the midst of serious discussions with the Europeans on things like the Roosa bonds or the two tiered gold system, they didn't want to go to these countries and, in effect, be advocating that they give more money to IDA. So he asked Woods as the President of the Bank to undertake the job of negotiating the second replenishment to IDA.

Woods undertook to do it, recognizing that this was a new function for the Bank President to go around with cap in hand. The attitude had been under Black. What you give me for IDA I will administer to the best of my ability. Now the President becomes the person who has to ask for the money. He had a choice. He could simply have said, I will take the amount that you have given me and administer it. That's how I do it. Or I advocate and tell you what to do. One of the things that really resulted in the furor on the IDA replenishment was that we never consulted with anybody on the billion dollar figure. That was very deliberate. We didn't ask countries in advance whether they would like the idea that the President of the World Bank came out for a billion dollars for IDA. The first time they read it is in a letter from George Woods to themselves as Governors of the Bank. Many of them never forgave George Woods for that, because they felt that he put them on the spot. That was exactly why he did it. He wanted to put them on the spot. He didn't really care what they thought about him.

OLIVER: Was this a letter accompanying an Annual Report or something like that?

FRIEDMAN: A letter accompanying giving a little bit of our analysis as to how we had arrived at the figure.

OLIVER: Did it accompany an Annual Meeting?

FRIEDMAN: No, no, it was just a letter saying that IDA needs to be replenished. I think there had been a resolution at the Governors Conference looking forward to the second replenishment and calling upon the President of the Bank to do all that was necessary to achieve the replenishment of IDA. The decision to do it that way was interesting. McNamara doesn't do it that way. At least in the Third IDA Replenishment, he goes and in effect says, Let's find out what the countries want to do. That is what we will try to negotiate, so that the highest figure would be proposed by some country rather than by the President of the Bank. I think that McNamara has since moved back more towards George Woods' position, but the memory of countries' resentment of being pinned up against the wall is still very fresh in my mind.

OLIVER: You also told me once that a problem with the Second IDA Replenishment was that Fowler himself became ill, and the Treasury Department was unable to help for a fair amount of time.

FRIEDMAN: Yes, that was a very interesting point. I am glad that you reminded me of it, because one of the questions often asked about the Second Replenishment by people who aren't that much interested in these things was, Why was there a long delay between the time when it was agreed to go for a second replenishment and Woods' actual negotiation of it? Now here I have absolutely first-hand knowledge, since I sat in
on these meetings at our Governors' Conference in 1965 or '66; it was one of those two years. Woods asked the Chancellor of the Exchequer, the German Minister of Economy, the French Minister of Finance, those were the ones that counted. Should I come to Europe and talk to you about the IDA replenishment? They all knew about the new dollar figure by this time. They all answered without any equivocation, "George, don't come to see us until you tell us what Joe thinks, because unless we know what Joe thinks it doesn't do us any good to talk to you."

OLIVER: This is Joe Fowler?

FRIEDMAN: Yes. We have to know what the U. S. is prepared to do. So Woods talked to Fowler. I was with him when he did, and Fowler said, "I will give you the earliest possible reply." In the meantime Fowler's principal assistant, Ralph Hirschleifer, and I got in touch with one another, and we began to evolve a program about what the U. S. could support. Woods was getting more and more nervous. In the meantime, Joe Fowler got sick—I forget, it was something like a kidney or a gall bladder—he went to the hospital and had an operation. His own work began to pile up, and the Treasury began to slip on giving us a reply on the IDA work. Ralph and I had worked out a balance-of-payments adjustment mechanism, which was exactly the one that they adopted about a year and a half later. We had it already to go, but Fowler got sick and had to go to the hospital, and we were delayed—boy!—it was at least six months. By the time we went to Europe, one of the ploys was to say, "Well, how come you waited for the Americans?" This was actually said at a meeting by people who knew very well that the reason why Woods was waiting for the Americans was because the Europeans had asked him to. People from the very same countries would get up at a meeting and say, "How come you didn't come to see us earlier? Why do you always have to wait for the Americans? We told you you were an American dominated institution."

It was one of those things that happens in international relations, and to this day there are people who ought to know better who still talk about the delay as though in some way it was a personal decision on the part of Woods, that he wanted to delay, when as a matter of fact what he was terribly eager to do was to get on with it. At this point in time there was nothing that preoccupied his mind in the same way as the IDA Replenishment. Ninety percent of his energies in the Bank—he is not doing administration, that is not worrying him at all at the time, he is hyped on the idea, as he told me, "Irving, what I want to succeed in doing as President is to see that IDA becomes more important than the World Bank. There is no future in the World Bank Group unless IDA becomes more important than conventional lending." This IDA Replenishment was for him the central theme, the mission that he had as President of the World Bank. But it got caught up in international relations.

OLIVER: May I digress for a moment and ask this: Was there ever any conversation in the Bank at this time or any other time that you know of, of the Bank's actually taking on the job of administrating straight grants as distinct from concessional loans? I have often wondered why the Bank didn't ask for $400 or $500 million a year from the United
States to be administered by the Bank simply as a straight grant?

FRIEDMAN: That is an interesting question. I think the closest thing to it—I seem to have a recollection I can't pinpoint—when we set up a special fund administered by the Inter-American Development Bank, the question arose, at least in informal chatting with the Americans, why don't we have a special fund administered by the World Bank? At this point an issue arose which is still an issue. It came up, oddly enough, in related things such as a coffee plant, which I will tell you about sometime, that the Americans never suggested, never would talk about a special fund of American money except as tied aid.

Woods at this time, I think with the complete support of everybody on the staff, without any dissenting voice that I ever heard, said we don't want any tied aid which we only administer. This had been a prime principal of Black's, and Gene was absolutely right: it is much better to be a beacon light, much better being an example, even though we have less money; our money should be well used, and we can't use it well if it is tied. Therefore, Woods would simply cut down unequivocally any suggestions that we might have a special fund unless the special fund was untied. His main argument was, if you want to have tied money given to the Bank, the only reason for doing it is to let us, instead of a national government, administer a nasty job. They can do their own export promotion; if that is what they are interested in, let them go do it. We are trying to be a development agency; we are not interested in being a billion dollars or a half-a-billion dollars bigger. We want to be bigger only to help development. We won't help development by having tied aid. Any time there was even a suggestion that we might administer tied aid, he was very much against it. Whether there were other people in the Bank who were for it, I don't know. Those I dealt with all sounded as though they thought that Woods was very wise, because his view was completely in line with the traditional views of the Bank on the proper kind of financing.

OLIVER: In your recollection did consideration of tied-loans or grants arise in connection with negotiations with any governments other than the United States?

FRIEDMAN: I have a feeling that some other governments sounded us out. Perhaps the Swedes, at one time, had sounded us out on that. I don't remember any other. I was trying to think. At this point, there weren't many aid programs. There was the French program which was strictly their own: they don't ask anybody to do anything for them. There is the British program, which by this time was leveling off. After 1965 they just didn't increase any more. We had a very tough time with the British to get them to participate in the increase in IDA. Intellectually, they were in the forefront of arguing for more concessional aid, but, as a matter of fact, when it came to putting up money by the middle of the 1960s, they were in a period of fiscal constraints—not only on foreign aid, on everything—a situation they haven't gotten out of yet. They are in fiscal and balance-of-payments difficulties chronically.

The Japanese don't have a foreign-aid program. The German program was just beginning to get started, as was the Canadian program, and I
just don't remember any other. I have a feeling about the Swedes. The Canadian program has always been very friendly to the multilateral agencies, but that was the way the friendship was manifest. When we first came up with the billion dollar figure and publicized it, Woods quickly made a trip to Canada, and Pearson gave a lunch for him with his principal cabinet members. (They were nice enough to ask me to come.) And Woods just frankly said, "Lester, I put out this billion dollar bombshell, and I need someone like you to come out and say it is a good idea." So Pearson very quickly came out and publicly announced Canadian support for the billion dollar figure. The Canadians during this period of time were absolutely marvelous. We had such problems. We couldn't get IDA replenished. At one point, I got on the phone to Morris Strong, who was head of the Canadian Aid Agency at that time. I asked him whether or not if I proposed to McNamara, who was President by this time, the idea of advance payments by countries before the fulfillment of the formal replenishment, which was hung up in the U. S. Congress (this was the second replenishment which didn't get conciliated until 1969) the Canadians would back me up. Morris Strong, over the phone, committed the Canadian government to advance payments; and I used that as an immediate overture to convince people like the Dutch and the Swedes also to do it. Before you know it, we have kept IDA going through the advance payments by countries other than the U. S., led by the Canadians. We couldn't get up to the totality, but we only needed small amounts. There were two countries I could always turn to and get support—-the Canadians and the Dutch.

OLIVER: One other question, a digression, but it will finish this subject. I was told yesterday that, unofficially, the Germans and the Japanese as well as the Americans have now told the Bank that they will not approve further Bank bond issues for the time being for balance-of-payments reasons. Have you heard this?

FRIEDMAN: I have heard something like that, yes. Woods at one time had a very critical problem which was that one member of the Bank did not contribute anything but a token amount to IDA during the course of the second replenishment. That was because the U. S. for the first time balked at giving access to its capital market. One of my jobs was to negotiate with the U. S. permission to get access to the capital market in the sense of trying to meet the argument about balance of payments. Our Treasury Department, obviously, did the formal negotiations, but my job was to try to work out the balance-of-payments rationalization.

OLIVER: This was 1967?

FRIEDMAN: 1967-68. I think it was 1967. The Americans never said, "No," but they didn't say, "Yes!"

OLIVER: I understand what they now say is, "Don't ask us."

FRIEDMAN: Yes. I kept on talking to them. We had some meetings with Fowler and some of the other people in the Treasury like Fred Detty, who was Undersecretary and Bob Rossa's successor, and they were all very friendly; but they didn't say, "Yes." In a sense, they said, "Don't ask us in a formal way." My job was to talk to them informally to get their views. Essentially, the argument I was trying to use was
that in the picture of your balance-of-payments problem, the World Bank is very, very small. Indeed, I could demonstrate (I did work out a little model for them) as a matter of fact, the totality of the World Bank operations were a net addition to the U.S. balance of payments rather than a subtraction.

OLIVER: Not for tied-loan reasons?

FRIEDMAN: No, just simply by the way the trade worked out. It was persuasive for every year but that one. In any event, Woods decided that he would not give Bank money to IDA as long as the U.S. was not willing to do so. He didn't want to fall into a trap, as he saw it, rightly or wrongly. On this point, I didn't agree with him and others didn't agree with him. I urged him—I wasn't the only one—to continue to give, say, approximately half of our net profits to the IDA. But he just said, "No." If you did, you were likely to educate American congressmen to the idea that, if the U.S. didn't give money you could always get IDA money out of the World Bank anyway. We were accumulating a cash reserve, and his fear was not only that would you take it out of current income, someone would say, "Why do you need $2 billion of cash reserves? All you want from us is a few hundred million dollars, why don't you just use a couple hundred million dollars from your own cash reserves and leave us alone for a little while?" He just refused to do it that way.

OLIVER: Is there any additional information you might like to add about the Second IDA Replenishment?

FRIEDMAN: You raised the question about a delay in the IDA Replenishment. There still is much criticism that the Second IDA Replenishment seemed to take inordinately long to get started. One of the factors had been, as I was trying to explain, the illness of the Secretary of the Treasury at the time, combined with the wishes of the leading European Governors that Woods not come to their countries to pursue the IDA replenishment until he knew the position of the American Secretary of the Treasury, because they in turn were going to be influenced by that position. Since then I have given it a little more thought, and an event occurred to me that is worth bringing out because I think that it had many implications and manifestations, including the delay in time.

I mentioned the other day that Ralph Herschtertt and I had been working on the balance-of-payments aspect, because from the very beginning Fowler and the Treasury people had taken a favorable attitude toward the billion dollar proposal. We were also supported by people in the State Department like Tony Solomon, who at this time was Assistant Secretary of State for Economic Affairs. We really did not have a hostile U.S. attitude, but the point was made: We are now in the middle of balance-of-payments difficulties, and you will have to come up with some kind of balance-of-payments solution. We had all sorts of ideas, and I was given the assignment, I guess partly because of my job in the Bank but also because of my Fund background, to see if I couldn't come up with something in consultation with the Treasury and Ralph Herschtertt who had a background in the International Monetary Fund Staff as well as on development. He was much concerned with World
Bank problems at this time, so he was given the assignment.

I went off to a monetary conference at Princeton, which, you might remember at that time, Marckhoff and those people were in. When I came back that Monday, I think it was, Woods told me that he in the meantime, over those few days that I was in Princeton, had had a meeting with Livingston Merchant, who was the U. S. Executive Director, and Dick Demuth, and they had come up with a new proposal on the balance-of-payments aspect of the Second IDA Replenishment. This was completely like thunder or lightning out of a blue sky for me. Later I found out that it had been suggested by Bernhard Zagorin, who was at this point the U. S. Executive Director in the Asian Development Bank. He had quite a bit to do with the World Bank and was considered, I think very correctly, a great friend of the World Bank. Bernie had been stationed out in India, and, like any man in the Treasury, was considered knowledgeable about the International Monetary System.

The proposal was essentially along the lines that the U. S. would contribute its share of IDA, with a very minor reduction, but the monies would be set up in two pools (what I call the two pots approach). IDA would be drawing from these two pools, but the mechanics of it were such that if procurement of American goods did not lead to as high a percentage in IDA as the U. S. contributed, the remaining funds would not be used. Since U. S. procurement from IDA was between 20-25 percent at the most, and its contributions were about 40 percent, this really meant a reduction in the U. S. contribution by a significant, very large magnitude unless IDA could rig procurement.

In private conversations with Zagorin and the Treasury people, there were questions to the effect: If you handle yourself in a certain way, could it come out that way?

Of course, Woods had been completely devoted to untied competitive bidding. Thus, when he told me, with a considerable amount of glee, that this had been worked out, I told him that I thought it was crazy. Did he realize what this was? He said, "No. He was told that in the end all the monies would be used." I said, "Not if you appreciate the fact they could only be used if you have tied aid," at which point he was terribly disturbed. I don't think he ever forgave Dick Demuth that incident, because he himself didn't know about balance of payments, and it never occurred to him that anyone, knowing his strong views about untied aid, would maneuver him into such a position.

Of course, in the meantime, the word had gone back to the Treasury that George Woods had agreed with this two pools approach. The Treasury also bought it, and Fowler was very pleased because he said now he had the perfect approach to the Congress. There was going to be no impact from the IDA replenishment. We had been making the case that there was no impact from the overall Bank approach, because we were able to take the fact that the Bank was making a positive contribution to the U. S. balance of payments and offset it against IDA one, but that wasn't as good a case as if you could make IDA itself non-balance of payments in its effect, because that would mean then that the World Bank Group's total impact would even be more positive.

Fowler and the people who were handling Congressional relations were
terribly pleased, and they immediately ran with the ball and started to talk to people about this new approach. Some of it leaked to foreign countries, and our own staff, for some reason, very quickly had gone overboard on it—I think because they hadn't analyzed it, they hadn't realized what they were doing.

Well, I spend the next I think it amounted to about three months, trying to undo this. The first reaction we got from people abroad, like the British and the French, was that we did not dare to have a meeting on IDA replenishment if we were to go up with this proposal. It would be regarded as sheer chicanery. We worked out a modified proposal which was that we'll use the U. S. contribution and others; to the extent to which the U. S. contribution was unused, it would be used later than the other contributions. But we wouldn't ask for a third replenishment until all the funds had been used. The French, having known about the original proposal, said that this was a fake: you have no intention of using the last portion. We know that when you get to the last portion, we'll be told that that is a burden on the U. S. balance of payments, and, in some way or another, the funds will be frozen. I suspect that to this day the French remain suspicious of this proposal because this peculiar first proposal would have done exactly what the French feared it would have done.

Thus, suspicion was another element in the delay in the Second IDA Replenishment which helps explain why it took so long. The delay was very important, because all during this time the sentiment against foreign aid, as you know very well, Bob, was running down hill. So that any delay by a year really meant that we were that much worse off in going to the Congress and asking for any kind of money, even for something for IDA, which at that time was really quite popular in the Congress. Nevertheless, it still was foreign aid, it still was development assistance, so I think the general feeling that the delay in the IDA replenishment was costly in itself is probably right. It probably was costly. But it was due to this kind of thing. At the meeting in Paris, when we first proposed the balance-of-payments solution, we just got all hell from the French delegation who also viciously attacked the U. S. on the grounds that this was a disguised way of reducing by nearly 50 percent the U. S. contribution. They charged that American officials in the World Bank—Burke Knapp and I were leading the Bank delegation—were just obviously playing the American game.

OLIVER: Would you care to comment about the most recent IDA replenishment and failure up to now to convince Congress to approve the replenishment?

FRIEDMAN: I'll be glad to comment on it, Bob, but I think you ought to keep in mind that in the Second IDA Replenishment I was deeply involved; I was also involved considerably in the earlier stages of the Third IDA Replenishment, but very little involved in this fourth replenishment. So I don't really regard myself as anything except an observer with a good seat in the ballpark in the sense that where I sit is pretty close to where the game is going on, and I know the players, and I have some idea what is going on. Nevertheless, I am not one of the players in the fourth replenishment. Do you think it is worth it—my comments on it?

OLIVER: Well, maybe just briefly. Why do you think the Congress so suddenly turned against IDA?

FRIEDMAN: In the first place, I think the willingness to provide
development assistance in the country is going steadily down hill. I think that IDA had the misfortune of coming across the energy crisis; the Middle Eastern War; a general apathy toward India — a lot of it, hostilities the fact that IDA is still regarded as largely a financial mechanism for India and Pakistan; that Pakistan is really not quite the favorite it was before the breakup between Pakistan and Bangladesh, the end of the Viet Nam War, which has reduced political concern about South Asia; and the need to keep India and Pakistan, and now Bangladesh, happy. I think people are less concerned about foreign aid. Maybe there is a shift toward military stuff as the military talks about naval bases in the Indian Ocean. I think all of these things have reduced American interest in IDA.

I know from some of the reports coming back from the Hill that at the particular time the IDA replenishment was taken up, there was also considerable hostility toward the Arabs and to the really weird idea of the Arab countries being less developed countries. If they are hostile to the U. S., why go around helping such people? Clearly, as a matter of fact, none of the IDA funds were going to be used for any oil exporting country. They wouldn't be used for the Venezuelans. (They probably would be used for Indonesia.) All of these things were in the atmosphere when IDA was being replenished. I think the other thing is that there had been a general accounting office report on the Bank which had been quite critical of the procedures of the Bank, critical of the fact—and this had been growing for years—that the U. S. does not have enough knowledge about how the World Bank grew, including IDA. Who does its business? There was a feeling that there has been a lack of scrutiny by the U. S. Executive Director and the U. S. Government. The Treasury was scolded both in hearings and in print for its failure to follow closely enough.

There had been ruckuses about Chile and lending to Chile, and some ruckus about Iran and lending to Iran. You had a lot of unfavorable factors. Finally, I think that one has to mention the fact that the Bank has pushed multilateral aid, has really insisted on being the leader in world affairs on this, publicity wise as well as in fact, and has emphasized The World knowing that it was the leader. Thus, it has also become the principal target. Wherever you go in the world today, the Bank is more visible; and what the Bank does is subject not only to more praise, but to more hostile criticism. When you are trying to get IDA replenished, people forget the favorable criticisms and remember the unfavorable criticisms.

I think it was very startling that for this IDA replenishment, at the hearing that took place—the one where they handed in this negative vote, at the preliminary hearing—Schultz, Volker, Hennessey, and the U. S. Executive Director all went down to the hearings. The administration mustered all their big guns, all the most important ones, but not a single Republican supported IDA even though all these leading Republicans came down to testify. You had a general indifference to the whole thing. No one could really believe that this Administration, under the existing political circumstances and everything else, really could attach much importance to the IDA replenishment.

OLIVER: Is there also a possible implication that the Bank itself had not been as active behind the scenes, so to speak, in trying to line
up support as it had been earlier or as it might have been this time?

FRIEDMAN: I think that the Bank has made a very critical error in this whole thing, I may say, in turning the thing over to Dennis Rickett and then to Bill Iliff for years. They are both very able people, but they are Englishmen. They don't carry weight with the Americans, either as individuals or as a nationality. I think that this has been recognized in the Bank, though I have never heard it said explicitly because as a matter of fact this fellow, Duke Merriam, has been carrying the ball more and more. He is a very able guy. I think that he is one of the best guys that they have ever had involved in the IDA replenishment. But he comes in after a few years of the other guys, and he is not continuity. It isn't as though he has been there playing a major role for five or six years and has been able to build the contacts. He comes in when the building is 3/4 burned down, and you say, "How about rescuing the building?" From what I can see, he has been working like a dog and probably quite effectively, but he has been bailing out the boat when it is 3/4 sunk, or at least is full of water. He has a very tough job.

The other thing is McNamara's personality. He really isn't a very social, or sociable guy. He is not the kind of guy that will invite many people out to lunch or take them out on a boat ride or take them to his house. I think he is probably very good in a one-to-one conversation, and he is very good in formal presentations where there is an audience, but of course by the time you get to the formal presentation, it is very well advanced. What you really need is someone behind the scenes who is trying to butter up people and make them friendly and so forth. As far as I know, McNamara spends very little time in what might be considered politicking. In all fairness to him, not much of this was done by George Woods either. George Woods left most of the IDA politicking to me, which obviously I was in no position really to do.

We had great help from Joe Fowler. Joe Fowler is a born politician who loves to butter up people. We had great help from Joe Barr, who was the Undersecretary of the Treasury—Joseph Barr, who is now president of American Security, and who for a little while, when Fowler left the administration towards the end of the Johnson administration, was Secretary of the Treasury. Joe Barr had been a former Congressman from Ohio. He just loves to mingle with Congressmen. Fowler and Barr were both genuinely devoted to getting IDA replenished. To this day they are very proud of the fact that they got the Americans to accept the principle that IDA should go up to $1 billion. We wouldn't be talking the magnitudes today were it not for Joe Fowler. So we had Joe Fowler in effect the kind of politicking which you have to do in the Washington scene and which he loved to do. I wasn't there. I just heard what was going on, but he is just marvelous with people.

I don't think anybody else ran it this way. I don't think Schultz is that kind of Washington politician. Paul Volker is not that kind of Washington politician. Jack Meenessey is a brand new boy on the scene.
So we've got nobody in the Treasury. We have Congressional liaison people, and they have been working on behalf of IDA. This Administration has been helpful on that; they have not been hostile. But we haven't had the kind of master politicians we had under Johnson. Furthermore, by the way, Joe Fowler was a leading Democrat talking to Democrats, and now you have many leading Republicans who are opposed—at least a majority. It is interesting that, in the last vote on IDA, there wasn't a single person who did not belong to the so-called liberal wing of the Democrat party who voted for it. Everybody else, all the conservative and middle-of-the-road Democrats, voted against it, as well as the Republicans. Joe Fowler was a southern Democrat who, although he was known to be acceptable to the liberal Democrats, could speak to the Southerners and the Eastlands and people like that. He is a Virginia Democrat. It was so useful to have a person like him in office at the time, whereas I don't think a person like Schulz swings the same kind of personal weight with these people.

OLIVER: Would this be a good time to ask for your overall summary of the Woods administration and to some extent contrasts that you might want to note between that administration and the more recent period in the Bank?

FRIEDMAN: It is hard to be methodical in thinking out loud about the Woods administration. Perhaps I should say at the beginning that having come into the Woods administration, I may have this tendency to feel that what we did was new, when as a matter of fact maybe it wasn't new at all. So it could be that my view is somewhat distorted by the fact that I wasn't in the previous administration. But I think that under the Woods administration certain definite things were accomplished.

One is that the Bank did make a major turn from being a bank to a development finance agency. Secondly, I think there was a recognition that IDA could not be a minor thing: it had to be a major thing. Woods was never successful in making it as important as he wanted it to be. In his talks with me when I first came, which were interesting because they showed his vision of the thing, we talked about how big the total lending program of the World Bank Group should be—this is in 1964 and in '64 dollars. Double the figures now if you want to get the same pattern of impact. His attitude was that he hoped that IDA would get to be about one and a half billion dollars and that the World Bank would be about one billion a year. That is what he was trying to accomplish. In this way the Bank would continue to play an important role, but the bigger role would be played by IDA. Well, as you know, we have never got to this proportionality—the World Bank has remained more important. Nevertheless, the principle got established with some governments and the U. S. administration. The Canadians and the British accept the idea that IDA really ought to be more important in the totality of the Bank Group than it is. If it isn't, it is because of the practical difficulties of getting approval from governments for an increase in IDA, not because this is a wrong concept to start with.

I think under Woods, too, there was the building of the staff of economists and the economic program of which he is still very proud.
He keeps on telling people this is really the great accomplishment of his administration. There was the expansion of our project work into new areas. We opened up our work on population, for example, at this time. We began to move further into education, although I think that had already begun. We ended this notion ("we" meaning Mr. Woods really and his people, because I wasn't much involved in this) that the Bank should not lend to government-owned industrial banks as well as only private industrial development banks. (This had been a source of great complaint by the developing countries.) We greatly expanded our work in Africa. We undertook a lot of preliminary work for expanded programs like opening up offices in East Africa (in which we took over many of the expatriates who were being moved out of East Africa—mostly Scandinavian agronomists—I think largely at the prodding of Barbara Ward. At this time Barbara Ward was a great influence in the World Bank, because she is a good friend of George Woods, and he thinks she is marvelous.) So you get this kind of very liberal ferment, this sort of advance thinking in the development field.

It was Woods who initiated what became the Pearson Report. (He started with Oliver Franks, he spent a year trying to nail down Oliver Franks unsuccessfully, and then he turned to Pearson to do it.) Woods had the feeling that there ought to be a reevaluation of development, that he ought to try to rescue it from going continuously down hill.

Woods gave a new emphasis to the importance of the Bank in the commodity field, to the feeling that the Bank ought to be willing to play a more active role in supporting the foreign trade objectives of developing countries, whether through commodity agreements or by openly supporting the case for preferential entry to markets. He, himself, made speeches on this subject. Again, maybe Black did too, but at least I was very aware that Woods in talking about this would always emphasize that we shouldn't confine ourselves simply to financing or even to capital investments.

He built the Projects Department, because he was really sold on the idea of technical assistance and technology transfer as being very useful. He tried to encourage more private capital going into countries. He had a lot to do with interesting the various major petro-chemical industries of the world to be willing to put more money into India, if the Indians were willing to have it. He had a lot to do with mediating behind the scenes the copper situation in Chile before it broke loose. In fact he got an agreement that worked for about five years on the copper situation because of his personal relations with people like Anaconda Copper in Canada. He did a lot of things of that kind, by the way, that you may not even find a memorandum in the Bank about, because he was never the kind of guy that made a memorandum on anything. I just happened to be personally present often enough to see this going on. He would get on the phone with people that he knew and, on a sort of "old boy" basis, make suggestions: "Oh, by the way, why the hell do you want to get into all this trouble? Why don't you just tell these guys you will take 49 percent interest instead of your 98 percent interest, because you know and I know that with 49 percent you
would still run the company and that will make them happy and you will be happy and you will be able to"—his expression—"live with this bride much more happily than if you try to live with her on the basis of always dominating." He would do this sort of thing.

I think the great tragedy of his administration was the lack of loyalty of his staff. It broke his heart in the end. I have never witnessed in all my career a more disloyal staff than the staff of people who would literally leak to the press within a half hour or an hour after they had heard Woods say something. He would read about it the next day in the newspapers. It was something that I have never understood. I have never understood why. I didn't make it my business to probe into it, but it was just something—having come myself from a long national and international service—I have never seen a staff which leaked, and in a way hostile to the person for whom they worked.

My only theory is that he had made clear in advance that he was not going to seek reelection, and, therefore, that as his term of office began to come to an end, the dominating posture of fear of the President became a much weaker thing. People assumed that he was becoming more and more of a lame duck President. I could tell you some very dramatic stories about Brazil, our Governors' Conference in Brazil, along these lines, but it is probably not worth it.

OLIVER: In any event he didn't rule by fear, so to speak, because people knew that he wouldn't be there for more than five years, so he couldn't really....

FRIEDMAN: He wasn't concerned with structures. He wasn't concerned with what might be considered management. He had once explained to me that he had come from First Boston, which had always been either the first or second of the investment banking houses of the United States and, therefore, among the few largest in the whole world, and they never had more than 80 professional people. He just didn't understand why there were all these people around him in the Bank. He made it clear: he had never had any experience in organizing thousands of people and putting them to work, and so he was quite happy to delegate administrative authority.

He experimented with one administrator after another; nobody lasted for more than six months to a year as his principal administrator. He would even do things like putting the General Counsel in charge of administration for awhile, because anybody who wanted to be in charge of administration could have it as far as he was concerned. He usually gave it to people who wanted it and could claim a long association with the Bank. He did have a great regard about having been in the Bank a long time. He had a great regard for experience. When I came to the Bank and needed a principal deputy in my work, for example, his advice to me was very strongly that I find a deputy from within the Bank. He said, "You may be able to find more eminent economists outside..." and, given my preoccupation with nationality, "maybe one that would be more suited to your ideas of having an international staff, but you need someone who has great experience in the Bank. This is a very tricky outfit, very complicated." He saw it as an intricate Chinese puzzle. Not only did
I think very highly of Andy Lamarck, my deputy, but Woods thought that he was an excellent choice because he had been there so long and had done well in the Bank.

OLIVER: Did Woods have a hand in choosing his own successor?

FRIEDMAN: I don't know. I think that he thinks so. I think that he thinks he had a great deal to do with choosing McNamara as a successor. I know that he was very pleased with the choice of McNamara, unless he was just dissembling. In his talks with me, he said he was very pleased with the choice of McNamara. As he put it once, "Irv, when I first came, I thought this was a country club. Maybe I changed it a little. But, Bob will really put these guys to work." I think he was very impressed that McNamara had a reputation for hard work and making other people work hard. So he was terribly pleased.

I have a lovely little anecdote about it which I think is worth recording in terms of this transition between McNamara and Woods. I was having lunch with Woods one day, and McNamara called. (Woods never, by the way, lunched with more than one person if he could avoid it; the anteroom was too big.) The phone rang. He picked it up and said, "Oh, hello, Bob." He had told me by this time that it was McNamara, whom, by the way, at this point, I had never met. He said, "Oh, you want to talk about these things? Sure, why don't we talk about them Monday?" McNamara must have said something equivalent to, "Well, why don't we talk about it tomorrow?" And Woods said, "Tomorrow? Tomorrow is Washington's Birthday. We're closed tomorrow." McNamara to Woods said, "Closed!? You mean you close the Bank on Washington's Birthday?" And Woods said, "Sure, we have a lot of holidays over here." Ten minutes later, it must have been no more than ten minutes later, Woods' wife called and said, I just heard from Margaret [McNamara's wife]. Bob has just called her to say, "Margaret, I'm going to a place were they have a holiday on Washington's Birthday!"

It always seemed to me that the most attractive feature about the World Bank to McNamara was that he was going to go to a place that had a holiday. It seemed he hadn't had a holiday on Washington's Birthday for eight years, if not more. This struck him as a really outstanding fact about the World Bank. It worried Woods a bit, because I think Woods hoped McNamara might abolish holidays instead of taking advantage of them. I think this is a rather nice story in terms of the personalities of the two people.

Woods was very pleased with McNamara. I think he had liked the speech that McNamara had made in Canada on development. He showed it to me, and he clearly felt that McNamara would be a good administrator, that he was vigorous. I think part of the link was that Barbara Ward was a common friend of both; much of what Barbara thought came out through the mouths of McNamara or George Woods or both. He would carry on the Development Agency ideas against the Bank. Woods never talked about the Viet Nam War aspect of it—he never commented about whether this would be a handicap or not. Woods was convinced that McNamara was quite sincere in his devotion to development, that he would really throw all of his talents and energy into development work and into the Bank. To this day they see quite a bit of each other; they remain good...
friends.

One of the things that I have tended not to understand, however, is why everything that McNamara does really tends to deprecate Woods' contribution to the Bank. Now and then he will say nice things about Woods, but if you have read the documentation of the Bank, you know that everything we do appears to start in 1968, that all comparisons are between 1968, McNamara's first year, and later. In the first five years of McNamara, we did more than in the previous twenty years put together and stuff like that. I don't know whether that is accidental or not, but it has tended to obscure the Woods years. I am sure that McNamara understands that for his first two years, 1968-70, even the increased lending was already in place. You don't lend in the Bank except with a time lag of 2 - 3 years. So that the earlier numbers of his own administration were due to the fact that Woods had been very eager to expand the Bank, except that Woods, in expanding the Bank Group, had hoped that more of it would be financed by IDA. He was expanding the capability, particularly in project work like agriculture and education, in the hope that this would end up by being very largely IDA financed. Most of this capability ended up in projects that were Bank financed because IDA funds were inadequate, but the capability build-up, particularly in the Projects Department, was huge during the time of the Woods administration. If we looked at the numbers, I am sure that the Projects Department's numbers are at least two to three times as big after Woods' four years as they were at the beginning.

As for the staff buildup, I am willing to wager without having checked it out that the rate of increase was larger under Woods than under McNamara. Of course, Woods started with a much lower base, but he was very receptive to the great increase in the Bank on two grounds: increasing project capability would enable the Bank to make more productive loans (Woods was great on using the expression, "productive loans"); the other was on economics staff, where he was very generous, including allowing me to set up the first Development Research Center supported by the Bank. Where he held the Bank down, I think, was largely on loan officers. He felt he knew, personally, about loans. He didn't really need that many loan officers. But when it came to technical assistance or economics work he allowed a huge expansion in the staff. The expansion in the Bank since then has still been largely in the project field and into different areas: you get into rural development or you get into more of this other kind of technology.

There has been an increase in the technical capability of the World Bank, but I think the remarkable thing about the McNamara administration is how little it changed. It has been highly publicized, but someone like yourself who knows the history of the Bank, would find that there isn't a jerky movement in the history of the Bank when McNamara comes. What you find is that there is an accelerating curve which continues to accelerate.

The real difference is in the technique of management. The real difference is that McNamara is management oriented whereas Woods wasn't management oriented. I don't know, maybe Black wasn't either, although I have always suspected that maybe Garner was. Maybe he had a
different philosophy of management, but he thought a lot about management. The difference with McNamara is that his management orientation ends up in a management of which he is the head. He is unprepared to delegate management to someone else.

Black clearly made Garner the manager. Woods, I am afraid, had nobody as the manager of the Bank, except rather sporadically. No one stayed long enough to have real authority. Woods did not make Burke Knapp the senior vice president, which would have established a manager for the Bank. It was never clear to me whether he didn't want to or whether the Board didn't want him to. Woods would say the Board didn't want to, but I suspect that maybe he didn't want to. But when McNamara comes there is no problem: no matter whom he makes senior vice president, if anyone, McNamara would still be the chief manager of the place. He is not looking for a chief manager. He is the chief manager, his own chief executive officer, the result of which is that there is much less delegated authority than under Woods—I don't know about Black—but under Woods, because nearly every important decision now is made in McNamara's office—not just by himself, it may be at a meeting, but it is made in his office. The Economic Committee is abolished. Hollis Chenery, my successor, is not the chairman of the Economic Committee. Relations with the Fund have become pretty remote. Under Woods they had been very close. Woods was very friendly with Pierre-Paul Sweitzer. He encouraged my efforts to bring institutions together, because Woods knew that if you were closer to the Fund, that made for less control over the Bank, and vice versa, because you had to

be greatly influenced. It was under Woods, for example, that we introduced the Fund people into the consultant groups and the consortia. Now it is taken for granted, but it was something that Woods and I did. The Fund people did not come to consultant groups before, and now it is taken for granted that they will come.

I think that one of the reasons that relations with the Fund are much more remote under McNamara—maybe the oil prices and financing difficulties will bring them together again—is because McNamara likes to run the Bank without having to worry about whether the Fund agrees with him. The delegation of authority in the Bank is now really quite different. You delegate authority to implement things that are decided at the top, you don't just delegate authority to let people go ahead to the best of their ability. I honestly believe that the job of a Vice President of the Bank now is not as good a job as Director of an Area Department in the previous institution, although vice president is a better title and it enables the Bank to pay more, which is perhaps the best justification for it; it enables you to increase the remuneration to people. But it doesn't have the delegation of authority.

People look to McNamara for real guidance, not just for overall leadership. And he is very energetic. I think that he is quite prepared to do the work of a whole company of men, but it does make for a different kind of atmosphere. There has been a great expansion of the staff and a great emphasis on very formal administration, very formal structures. There is a sort of homogeneous quality in the Bank now with a great emphasis on the fact that everybody fills out the same
forms, everybody puts in leave slips, and everybody does this when they are told, literally. The President of the Bank puts in a leave slip, and everyone is supposed to. Under Woods, this just wasn't so. A person like Peter Cargill ran the Asia Department very differently from the way Jerry Alter ran the Western Hemisphere Department, and that was considered good because Jerry had to deal with Latin Americans and had a different kind of problem than Peter dealt with. Also, they were two different men. Mike Lejeune would run his department differently from a person like Bill Goodman would run his department. But now this kind of individuality is gone, and I am told the reason for it is that we have grown so big that we can't have individuality.

I suspect that, more importantly, McNamara as a manager just has much more of a concept of management and of how things ought to be done. It encompasses everything that people do. His ideas are not broken down by the personalities of people or individual differences of regions. There is a lot of tension in the Bank on this account. I think it grows out of this lack of recognition of diversity. It is really very difficult to get a Latin American to attach the same importance to coming to work at 9 o'clock as it is to a North American. If you have a Dutchman on your staff, he may come to work at 6 o'clock in the morning, because that is the way he has been brought up. He is supposed to get up at dawn and go to work. It isn't that North Americans represent the highest standard of hard work, they just represent something different.

To an Indian, it is perfectly reasonable that if some fellow Indian comes from abroad, he won't go to a meeting on the grounds that he has to meet the guy at the airport. No American ever leaves a meeting to meet a friend at an airport; his friend doesn't expect him to be there, but the Indian feels that his friend expects him to be there at the airport, and he will make up the time in hard work. It isn't that he is not a hard worker, he just doesn't see why he can't do it that evening, why he has to be there from 9:00 to 5:30. I think the person who understood this better than anyone else was Gene Black. He understood this kind of variety. Maybe this was true with Bob Garner too, because he was really running the Bank during that time.

When I was in the Fund, we didn't have any feeling that within the Bank people weren't happy about this kind of thing. In the Fund, of course, we always had this recognition of diversity, and I think they have it to this day.

McNamara did another thing which Woods started, though McNamara has done it much more forcefully. McNamara has pushed the idea that, as President of the Bank, he is the spokesman for the developing countries. Woods had more of the idea, which I think was a transition from Black to McNamara—Woods was sort of in between—that he was the bridge between the developed and the developing countries. He would try to talk in a way that was persuasive to the developed countries. That was how he was. McNamara, I think, seems to be less concerned about whether what he says is persuasive to developed countries, but rather whether it is reflective of what developing countries would want to say. As a result he has got himself into a problem that neither
Black nor Woods had. Under Woods, what you said as the President of the Bank, even in a general capacity (like when you were addressing ECOSOC or a Governors' Conference or UNCTAD or just on the platform) the World Bank should be able to implement itself. The President might be avant-garde, but not so avant-garde that he couldn't bring his own organization along. McNamara's now in the position where he is being criticized by the developing countries, to whom he is completely devoted—absolutely, 100 percent devoted—because he is not fulfilling what he himself has said. When you come to do something in the World Bank Group, you have to bring along the developed countries as well.

Therefore, if you just reflect the views of developing countries, not addressing the views in such a way as to be persuasive to developed countries, you may lose the developed countries, which means that you often cut back what you will say and accommodate yourself to what you think are the limitations, the confines of acceptability. In other words you don't say, "Look, I don't care whether these guys are going to be outraged by what I say about land reform or what I say about income distribution or anything else, even employment; that is what I believe in."

McNamara gets involved in the problem that most of the investments of the Bank are capital intensive. So the government from Nigeria in the last conference gives the Bank hell on the grounds that Mr. McNamara is making all these fine speeches when everybody in the Bank knows they do nothing about income distribution or employment. When speeches were written for Woods, there would be people like Harold Graves who would be very sophisticated about what developed countries thought, because they had been writing speeches for Black and others, and they knew quite well the kind of reaction. They would know that in the World Bank, part of the loyalty of developed countries, including the U.S., comes from the fact that they sell capital equipment to the developing countries and they are not really interested in a Bank which is going to end up with local currency financing, which is not going to end up in exports from developed countries. Even though they accept the notion, enthusiastically or reluctantly, of untied aid, they still want it to come out in exports of their kind of capital goods. If you toss that over and start talking about employment, that is a much less appealing thing to a developed country. You try to write it in such a way that you say you want to increase employment opportunities. With McNamara, bang! You hand it home so clearly that it is clear when it is all said and done that you might not be using the money for capital goods, you might be using it for spades and hoes, and petrochemicals. You will be buying things, but it might not be the kind of things that you really thought the World Bank was going to finance.

This means that the bridge function—this is my view of it, because that is what you asked, my view of it—that the bridge function is greatly weakened. I think one reason McNamara is having trouble raising money is that it is not as vivid that the World Bank is a bridge between the developed world and the developing, in which the real purpose of the bridge is for one-way traffic, enabling the flow of money and technology from developed to developing countries. There may
be a little bit of traffic going the other way, but it is a one-way traffic bridge, whereas now the spokesman role has become important to McNamara. He really has become convinced that these problems are very grave and that someone has to speak out, but the presidency role of the World Bank has become weakened, and this is one of the real differences.

Three senior people mentioned to me in the last 48 hours they wished they could get the Bank back to being a Bank instead of a development agency. These were three of the people who played a major role with me in helping to transform the Bank. They feel a lack of credibility that used to be one of the great assets of the Bank. All of these people—all three—had worked under Black as well as Woods, and they all had felt that one of the great things about the Bank was its credibility. The Bank was a place that everybody in the World relied upon, in some way, in Black’s mind, this was because it was a bank. A bank was where you shook hands and that was good enough.

The Bank has now gotten to the point where it is being attacked as being incredible. This is one thing the Bank had never been attacked for. It had been attacked for being too cautious, too conservative and that sort of thing, but not for being incredible. Now you have papers like the Financial Times of London coming out and saying, “These guys don’t know what they are saying. They are just talking, and you don’t know whether they mean what they say,” and so forth. That kind of voice used to be something like Barron’s. Under Woods you would have some guy saying, “There shouldn’t be any concessional aid.” There might be an anti-welfare argument. “You are just spoiling the countries. They really ought to have hard loans. Why concessional loans?” But that Bank wasn’t incredible. Now these people are worried, and my interpretation of it is that McNamara, the advocate, and McNamara, the President, and McNamara, the manager of the Bank or chairman of the Board—are all really very distinct functions. The Chairman of the Board is a mediator; he is supposed to bring countries along. The Manager of the Bank is supposed to get the staff to work. As spokesman for the Bank, if he makes himself also a spokesman for the Third World, the President is weakening his mediating role. So this problem has been created.

OLIVER: He is losing some credibility in the developed world.

FRIEDMAN: That is right, and I think this is what is hurting the Bank in the IDA replenishment. Bob, this is pure judgment and your judgment is at least as good as mine on this, but I have a feeling that if Bob McNamara were to call, say, Fulbright, or Wilbur Mills or Stennis, or Eastland and some of the real powers on the minority side—people like Percy or Goldwater, and were to say, “Look, as an American, I say to you that I think that it is in the interest of the United States that we have IDA replenished,” I don’t think he would carry any weight. I think that in their minds McNamara has become a very vociferous, less or more able, depending on whether they agree with him or not, spokesman for the developing countries. They regard him as a special pleader. Whereas George Woods, and I dare say Black before him, never went so far as to be regarded by Americans as special
pleaders for interests that were not in harmony with what ultimately would be in American interests.

In the end Black could disagree with Dulles about Aswan and be overruled, but Black was as good an American as Dulles. They just had two different points of view of how to handle the Egyptian situation, or the Russians. George Woods was just as good an American as Senator Eastland; and if George Woods, either directly or through Joe Fowler, told Eastland that if you don't do something for these poorer countries, it is going to be rough for the United States, this would be something like Senator Percy saying this to Senator Tower.

To me this is critically important, because, I am still convinced, Bob, that neither the Fund nor the Bank can get anywhere in this world at this stage in history without the thorough going conviction on the part of the United States that there is sufficient identity of interest between the multilateral approaches of the Fund and the Bank and the longer-run foreign policy objectives of the United States. There is no other major country that identifies this way. In Western Europe, they have no such feeling about identity of interest. They feel, if anything, that part of the price you pay for setting along with the United States is to go along with these things called multilateral agencies. There is some feeling along these lines in the United Kingdom, in an ambivalent way. You have some cases in Europe. I think there is a strong feeling along these lines in Canada, which is, after all, not a major power by itself, and a very ambivalent feeling about this in Japan.

I think, personally, that Japan is much closer to Europe on this. If they had their way, and if the Asians were to accept it, the Asian Development Bank and similar institutions would be their chosen instrument rather than a truly global institution in which they can't hope to be a great influence. Therefore, it is critical (if I were advising Bob McNamara on this sort of thing now, which I used to try to do in the early years) for him never to lose his identity as an American.

A wonderful thing that I have found from my own experience is that you can maintain your identity as an American and not lose your credibility with the developing world. They aren't in conflict. It does mean that, when you speak, you have to be sensitive to the kind of things that people in the developed world care about. For years, I have been trying to get McNamara to say something about inflation in his governors' speeches, because I know that if the President of the World Bank were to come out and say, "I am worried about inflation," the Western Europeans would say, "Well, now, we finally have a President of the World Bank who really understands some of our problems and not just the problems of the developing countries."

OLIVER: Well, I think we've probably done enough for one conversation. Thank you very much, Irving. I've learned a lot.