A CONVERSATION WITH IRVING FRIEDMAN, V
WASHINGTON, D.C.
JULY 23, 1985
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OLIVER: Irving, we talked yesterday, for the most part, about the IDA
Replenishment during the Woods Administration. I think there are a few
points that we probably did not cover adequately, and I should like to
ask about them today. Is it possible that Woods believed that IDA
might become bigger at some future time than the Bank itself in terms
of its ability to make loans?

FRIEDMAN: It's hard for me to read his mind, but the one thing
I do know is that, when he asked me to come over to the Bank originally,
one of the first comments he made to me was that he was asking me to
come over because in his view IDA ought to be bigger than the World Bank.

Whether he really thought he could achieve that, I don't know. But
he was very clearly of the view that the developing countries with
which the World Bank was dealing -- remember at this point it is very
largely India, Pakistan and countries of that kind -- were simply not
in a position to service without great difficulty their debt to the
World Bank -- not that they would default, but that much more assistance
could be given to them more effectively if it was on a much more
concessional basis. So I think he was always a very strong advocate
for increasing the size of IDA.

OLIVER: Did he ever talk about some specific size--three or four
times the amount of IDA lending that was made possible at the outset?

FRIEDMAN: Well, from the very beginning of the IDA work, and the IDA
work began very soon after I came to the Bank, my suggestion to him was
that we go for something about four times the size of IDA at that time.
He was very sympathetic to that. He was quite willing to associate
himself with that.

OLIVER: The four times figure was more likely yours than his?

FRIEDMAN: In terms of an actual figure, but I think the idea of it
being much bigger was his own idea independently.

OLIVER: Well, we have talked about the way in which you set about to
discover the amount of IDA lending that seemed appropriate, so we
needn't go through that again. But maybe you would comment about what
you perceived as the need for country economic programs so that
statistics and quality evaluations might uncover the relation
between Bank lending and IDA lending for a particular country as well
as the credit-worthiness problems a country might have.

FRIEDMAN: In thinking about the economic work at the time,
I was very impressed (to speak in terms of myself) with the fact that
IDA resources were very scarce. It already was clear from the
experience of IDA before 1964 -- 63, 64 -- that there was a very
vigorous demand for IDA-type-funds. There had been some earlier
discussions in various places of whether or not there really would be
the absorptive capacity, or whether there would be the demand for that
kind of funds. But that clearly wasn't the experience. The experience
was that there was a strong demand for IDA funds. We were dealing with
a very scarce commodity, and we ought to have some intelligent way to allocate these scarce resources, both among countries and by different users within countries.

Also, since we were part of the World Bank Group, as we later began to call it, we had to have some way of keeping in mind that IDA countries were at the same time likely to be, in small or large proportion, also World Bank countries; so that we had to have a notion of what makes sense in terms of the division within the Bank of access to the World Bank itself or to IDA or a mixture of the two. It was pretty clear all throughout this period that, at least as far as IDA countries were concerned, there also would be access to the World Bank. There might be a large group of countries that would only be World Bank and not IDA worthy. They would be very largely found in the Western Hemisphere.

As far as Asia was concerned, the other big region of developing countries, you're going to have countries which were the bulk users of IDA resources, but simultaneously they would be borrowing from the World Bank. The size of the World Bank would depend a lot on the size of IDA. The assumption in the case of a country like India or Pakistan is that you'd rather do it through IDA if you could, but that the IDA lending would simply not be enough, so there would also be more World Bank lending.

OLIVER: In the Woods Collection at the Columbia University Library, I have come across country analyses -- statistical analyses with an additional qualitative evaluation of various potential borrowing countries. I take it done in the Economics Committee in the Bank. I want to ask a little about that. What is the Bank background of that work? Was this a principal preoccupation of the Economics Committee?

FRIEDMAN: Well, I think that on that, as I recall it, it was something that came up in the Economic Committee but was largely organized by the Economics Department. It was really inspired by what was being done in the Monetary Fund at the same time. It was part of my mandate of coming to do with the World Bank what I had done in the Monetary Fund which was the systematic collection of necessary data for analysis, doing the analysis itself at headquarters and then in consultation with the countries. We began that program, I forget exactly when, but we began that program fairly soon after I came to the Bank, and we kept on improving it, hopefully, over the years as long as I was there. We kept on trying to make it better and better in terms of coverage, the frequency of the consultation and the content of these consultation reports. I don't know if that's what you are aiming at in terms of asking these questions.

OLIVER: Well, how about the cut-off line in terms of per-capita income? The reason I ask that is because I came across the case of Nigeria, which was a country having a higher level of income per-capita than other countries that were alleged to be eligible for IDA, but there was simply a qualitative assessment that Nigeria should
indeed be an IDA country because, in spite of its relatively high income, it had no many other problems.

FRIEDMAN: Well, it was about this time that Nigeria discovered oil in commercial availability, which influenced people's thinking about Nigeria. I think one of the interesting things that was going on at this time was a constant asking of questions of How do you allocate the IDA funds? This came up repeatedly. I myself was pretty unhappy about the fact that we allocated on the population basis and the so-called per-capita income basis with a cut off, because that meant really, by that definition, that the poorer countries, as I thought at the time, were kind of like the tail wagging the dog.

It isn't as though we had all the IDA funds we thought desirable. We had a limited amount of IDA funds, and, therefore, we got a definition of poorest countries which was really greatly influenced by this scarcity of IDA funds. Our definition of poverty, in my opinion, got to be too low. You know, you've got a middle-income country that will pay you $500 per capita. In my view, it is hardly a middle-income country. It was middle income only in terms of the IDA Replenishment.

There were so many countries with large populations (largely India and Pakistan -- to some extent Indonesia, but India and Pakistan particularly, especially at this time) which were such large users of IDA funds. Between them India and Pakistan, I think, accounted for nearly 70 to 75 percent. The definition of poverty got to be greatly influenced by the availability of IDA funds, and that struck me as being greatly odd; it seemed to be working backwards. Woods would constantly come up and ask me (sometimes this came up at the President's Council) if I had a better definition. I wasn't able to come up with any. The combination that we used was per-capita income and population, and that remained; and out of that grew a division of countries into high income, middle-income, and low-income, which we used and which we very arbitrarily set, in my opinion.

We did have an Economics Department -- that was done in the Economics Department, and I think you will find when you talk to Andy Kamarck, if you have a chance, he will know a lot about this. That was one of his special jobs at that time. We would divide the developing countries by some standard of per-capita income, as per-capita income was the agreed way to allocate IDA funds, multiplied by population. That gave a very, very strong bias toward an Asian IDA fund, because the poorest countries in terms of any kind of measured GNP (there were few exceptions like Haiti in the Western Hemisphere) were found in Asia rather than in Africa. The way the GNP was calculated resulted in lower per-capita income in Asia than in Africa, because Africa didn't have the huge population that Asia did. So you got the anomaly that poor countries in Africa were sometimes looked at as not as IDA-eligible as these massive poor countries in Asia. That troubled me at the time and still does.

OLIVER: Turning away from IDA to other issues -- I think we can talk about this briefly because it has come up before. It was a major Woods initiative, as I understand it, to help support the International Finance
Corporation by having the Bank make loans directly to it. Was it also a major Woods initiative to begin to drop countries from Bank lending eligibility because their incomes were too high -- countries like Japan and Thailand.

FRIEDMAN: Well Japan, and Australia may already have had it. I think Thailand was a very interesting case and it's worth commenting. For one thing it reflected the difficulties of administering this kind of rule.

Thailand on the per-capita income scale was not that high. It wasn't even the complication that you got in the oil countries, where the per-capita income was very, very high, but you have to take into account that you're dealing with a dual economy in which a very small portion of the economy is generating huge incomes. This would disguise the fact (Iran would be an outstanding case) that the great bulk of the population really lived in very poor conditions and were part of the less developed world. They were not part of the modern world despite the per-capita income of their countries.

Thailand was, in a way, a more interesting case. The Thais were getting the same thing as oil revenues from U. S. military expenditures. Thailand was a poor country; it was clearly a poor country. Windfall income was due to the fact that the United States built a few air fields and manned these airfields. Like the early years in the Phillipines, for the Thai economy those airfields were a tremendous source of foreign exchange which was huge relative to the needs of a poor country not generating a demand for imports. If this had been the result of a functioning economy, you would have had a demand for imports as a counterpart. In the case of Thailand, this wasn't happening because this was truly an enclave type of situation which influenced only a few economic activities.

I don't know if you know this story, but I think it is interesting and is a commentary on the World Bank at that time. Thailand had a very, very large increase in its monetary reserves, and so the question that arose was: Should a country which has a very large increase in its monetary reserves continue to be a Bank recipient even though its per-capita income is not high? We finally decided that we couldn't justify using scarce resources for countries that had these very high monetary reserves. We were in the midst of the Viet Nam War, and no one had a judgement on how long this windfall was going to endure.

I was sent out to do something about this. I spoke to the people whom I knew well in the Ministry of Finance and the Deputy Governor of Thailand. It was interesting, very interesting, at least I found it so, that at that time the Deputy Governor, who was a woman and was well known to the people in the Monetary Fund and the World Bank, told me quite confidentially, and privately, "Please don't cut off World Bank aid to us. We have a lot of corruption in the administration of our public works, and one of the few things that we do here which is not corrupt are the World Bank projects. We use them as our standard; we use them as a way of getting better performance from our own people. If you pull the World Bank out of it, corruption will just go on; it
be able to attend some other lunch. He felt that going to the luncheon...

UNCTAD was a more interesting case, because UNCTAD, from its very beginning under Prebisch, was in the habit of criticizing the more conservative (cautious, call it what you will) people in developed countries who identified Prebisch with the Economic Commission for Latin America and a more radical approach to development. (He was really in his own way, I guess, the leading Third World spokesman for those years in history -- not just that year, but maybe for those decades of history -- the 50s and 60s.) A lot of people shied away from UNCTAD. In particular, if you talked to people in the financial community, both in the government and in the private sector,

the feeling was that UNCTAD was kind of silly. It was a group of people who got together and made speeches and wasn't going to amount to anything. To me it was quite interesting that at the time we tended to have that view in the Monetary Fund. We were, among ourselves, very disparaging of these people.

Now when I got to the World Bank, I found that Woods was very pleased to cooperate with UNCTAD. He didn't really care, it seems, about this reputation that UNCTAD had. Woods was very friendly. He probably met Prebisch a couple of times. I don't remember anything very intimate between them, but Woods surely was very supportive of me when I found myself, for the first time, very closely cooperating with UNCTAD in these resolutions. The two were the Supplementary Finance and the Horowitz proposals. Indeed when I got to the Bank, they were given to me simultaneously as two studies the Bank had undertaken to do on behalf of UNCTAD.

At that time, Dick Demuth had already started to work on this. (He had not started to work on supplementary finance.) Dick was the brain trust or the strategic planner of the Bank. If there was any one person in that group from the President's Council that personified strategic planning in action, it was Dick Demuth. So I very quickly came to the conclusion that I would be glad to help out on the Horowitz Proposal, but that it should remain Dick's project. I remember riding home with Dick and telling him that. He seemed to be quite pleased; he wasn't going to lose what had become a pet project already. As far as I was concerned, I would be glad to help out; and I did help out in that I went on missions to various countries to find out what I could about the Horowitz proposal, but I didn't take the leading role in the Horowitz Proposal as I did in Supplementary Finance.

The Horowitz proposal was, in its own way, quite well received. Indeed it was a proposal that never died. It was a proposal which got reflected in the formation of the Trust Fund years later in the Monetary Fund. The idea that you would subsidize interest payments by the poorest countries so that they could in effect continue to borrow from the multilateral development banks is something that was thought of as something quite straightforward. I don't remember what happened to the Horowitz Proposal, except that I don't think it was pursued in UNCTAD. It got shelved in UNCTAD along with most everything that...
I don't think that it ever got ratified. I think it just died a quiet death.

I think it's fair to say Dick tended to be very supportive of things which expanded the scope of the World Bank. He was very institutional minded. If it built the Bank and, in this case, IDA as well as the IFC or its relations with UNDP, I think Dick was for it. I have a vague and general memory that he saw the Horowitz Proposal as not fitting in with the operation and philosophies of the World Bank itself, as being a complication in the life of the World Bank. I don't remember that there were ardent supporters of it. In fact, I think if anything we probably helped to put it away, but, as I say, in this case I think Dick Demuth's recollections would be much better than mine.

OLIVER: Well, it could have been subsumed under or, in some sense, obviated by the Supplementary Finance Proposal, I should have thought.

FRIEDMAN: That's what surely happened in practice. There was one other thing, going on too, Bob, which was the World Bank's relations with international commodity agreements. We had, for example, in the World Bank quite close staff relations with the International Coffee Agreement which was headquartered in London and which, at that time, was really the most important single commodity agreement in actual operation. We never ceased to be cooperative with them.

Drag Abramovic spent a fair amount of his time working on commodity problems and being friendly and helpful to the people in the international commodity field. We were never negative about commodity agreements, but, in terms of effort, it got overwhelmed by the effort we made in supplementary finance. Commodity agreements had been kind of stalemated, in any event, by the fact that the major countries were, by and large, very divided, the United States being very adamant in our position and the British having their own concepts of commodity agreements as being related to the Sterling Area or the Commonwealth.

The French were very much in favor of commodity agreements. They were the intellectual leaders at this time. The Germans were just beginning to become intellectual leaders in this field -- just beginning to. The Canadians were pretty active. They were generally on the side of the United States on commodity agreements, but commodity agreements were just not getting off the ground. Still, we continued to cooperate very closely with the Coffee Agreement people in London and did a lot of technical work for them.

OLIVER: Would you comment on Woods' personal relationship with leaders in the various countries, both developed and less developed. Were there countries that he was particularly fond of, in some sense anxious to work with?

FRIEDMAN: The impression I had was that, on the developing country side, he was very much at ease with the Indians and Pakistanis. He thought a lot about their problems and met with their people. He also was proud of the close relationship with the Japanese he had formed in his work at First Boston. He was intrigued by the rising movement in Africa. He went to Africa, accompanied by bottled water and other personal health measures. I don't know whether it was he, himself, or his wife or his doctor, but there was quite a bit of preparation to
really wanted to get something done, you had to deal with countries on both levels — on the senior civil service level and on the political level. He dealt on the political level and also on the senior civil service level, but the follow-up on the civil service he left to the staff.

OLIVER: Is it possible that it might have irritated one or another of the Executive Directors of the Bank — this process of seeming to go around the director to deal with other levels of government?

FRIEDMAN: It's possible. I mean it's hard for me to have a categorical position on this. I would suspect that the more you investigate that, the more you'll find the less there is to it. In those days the World Bank President was not expected to go through executive directors. Eugene Black had not set a pattern of going through executive directors as far as the Fund looked at it. When I got to the World Bank, I wasn't told I had to go through the executive directors. I was told by Burke Knapp, "We don't bother with these people the way you do in the Fund. We respect them, but we don't -- they are not what they are in the Fund." You go to the board members with proposals for loan decisions, lending rate proposals — with decisions that require Board action. You went to the board from time to time on the IDA Replenishment, but the diplomatic job of negotiating the replenishment is not the job of the Board. It still isn't. It is not the job of the Board today. It is not the job of the Board, as far as I know, in the Multilateral Development Banks. Either you see it as the job of the government — of the Ministers of Finance and the people they choose, like the Deputies of the Ministers in the Development Committee and places like that, or it is one of the jobs of the senior management of the Bank helping the government. It's not really an executive board function except in the very broad outlines. It usually requires a resolution of the Board of Directors to the Board of Governors authorizing them to negotiate replenishment. At that point, Executive Directors are consulted. If they have instructions to be against the replenishment budget, that would be the time they would speak. But having sent the matter to the Governors and the Governors having authorizing the replenishment, it is not a Board job.

In the Inter-American Development Bank, as you may know, Bob, it's a job that has been taken over by the governments. The governors appoint somebody. Usually a senior civil servant experienced in international negotiations would be the coordinator, and he, in turn, is helped by the staff of the Inter-American Development Bank, running all sorts of studies for them. But the negotiations are considered political. From time to time I've been asked questions about that, but I just don't know if there were some Executive Directors who, despite what I am saying, felt that perhaps they ought to have been consulted.

OLIVER: Since we mentioned the Pearson Commission Report, is it Lester Pearson?

FRIEDMAN: Yes. He was the Prime Minister of Canada at that time.

OLIVER: Maybe you will say what you wish about the background of the Pearson Commission report.

FRIEDMAN: Well, I think what is interesting about the background of
that report was the initiative taken by George Woods, particularly in view of the fact that, by the time it came out, he had nothing to do with it. I was present when the initiative was made. It was a proposal that was made by Woods to Pearson that he undertake a review of development finance and the situation in developing countries. One of the proposals was for more support for a larger IDA and a larger Bank.

I don’t know whether someone else suggested Pearson to him. People like Barbara Ward come quickly to mind, because she had a great influence on George Woods, and that’s the kind of thing that Barbara Ward might have thought of. I have no idea whether it originated in the true sense of the word with Barbara Ward, but I do know that he went up there to propose that there be a high level commission composed of ministers and that it be headed up by the Prime Minister of Canada. Pearson agreed to it. By the time it was worked out, Woods was out of office.

OLIVER: Well, some have suggested that the real origin of the Pearson Commission was the Grand Amite Speech. . .

FRIEDMAN: That’s the word I’m looking for. Go ahead.

OLIVER: . . . which was given in Stockholm in 1966.

FRIEDMAN: Yes, yes. Now who inspired that, I don’t know. At this point in time, we were very eager to have ideas about how to get more support for development assistance, for development finance.

OLIVER: But all this occurred after two years of something of a struggle by Woods to find ways of increasing the IDA Replenishment.

FRIEDMAN: That’s right. Well, but one thing you must keep in mind, Bob, is that we never thought it was going to be easy. It was not a question of being discouraged by the reluctance of the developed countries, the United States in particular. We knew we had some really strong friends in the Canadians and the Dutch and the Scandinavians. We knew that the British would be so-so, and the Germans even less, and the French not at all. We knew what the line-up was, and we knew that the United States at best was a weak supporter — strong in principle, generous in its expressions of support, but, when all was said and done, not prepared to do all that much. I remember at that time stressing that Woods knew that we were caught in a convoy with a slow boat approach, that there were a number of countries that would keep on saying that we’re prepared to do more if the others were prepared. People would tell you that they were prepared to do more, but you never knew how they would bear up in a test. So all the time there was a sense of unreality about it.

What really was frustrating about the IDA Replenishment was that countries were not responding as we had hoped. What we found frustrating was the time it took — the fact that the thing go so prolonged. Over and over again, you know, you’d go to a meeting — the U. S. was delayed for months, and you’d go to Europe. Each one would delay a little bit. You’d go to the Germans, and they’d say, "Come back next month," but you’d find that next month the Governor would say, "Well, it’s not quite the right time. Come back in two weeks."
You kept on; you tried to get them together, you'd do the obvious things. People like Burke Knapp worked very hard to accelerate the process, but it proved to be extremely difficult. When we get to Brazil -- I forget the date of that; we're still talking about IDA Replenishment -- in Brazil, Woods got the idea of having a meeting, an informal meeting of Schiller and Fowler, Michael Sharp and . . . . I have a feeling that there was a German, a Canadian, an American, and the British. I forget who it was. At that time, it was rather amusing because Woods had hoped that by getting them together . . . . Now we've got the Governors and we've got them in one place and they are all ministers. We might be able to accelerate the pact. We had this informal meeting, at which I guess the only two members of the staff were Burke and myself, and they got involved in talking about all this delay and why didn't they get on with it.

At this point, it is the Germans who are delaying it, and Shiller, Minister of Economy, I guess they call it in Germany, said, "The only thing we really care about is the non-recognition of Eastern Germany. What we really want to have is countries not recognize Eastern Germany. That's what we want to use our foreign aid for. IDA, the World Bank, doesn't help in that at all." I forget what Shiller's first name was

OLIVER: Karl.

FRIEDMAN: Fowler spoke up, "Karl," he said. "Karl, I'd like to tell you, it is my experience that one thing you don't get out of foreign aid is good will. If you think you are going to get good will for Germany out of the foreign aid, you're not going to get it. You want to give foreign aid to the World Bank. Look at George here and see what he is trying to do. You're not going to do it if you attempt to get political influence through foreign aid. It's simply not going to work." That was one of the more memorable little exchanges that took place at the meeting.

The fact of the matter is it didn't solve the problem. It didn't end the practice. The practice continued until it finally came to an end; and, of course, the Americans, by this time, had compromised their original support of the billion dollars a year to something less than that.

I was the one that came up with the idea that we could accept the idea that $1 billion was the level per annum we were trying to reach at the end of the three year IDA period. Let's get up there by gradual stages. We were constantly being negotiated around. That was the frustration of it. We just couldn't seem to get to an end. Of course that has been the experience ever since. All of the replenishments have always been drawn out. The first IDA Replenishment had one unique character: it was the first. It was the time when you learned about how difficult it was to get a whole group to agree. But the process just went on. I wouldn't be surprised if it went right to 1967 before it came to an end. I just don't remember.

OLIVER: Well, I think that the figure of $1 billion dollars was finally reached in 1970, which was the third year of the IDA Replenishment that took place beginning in '67.
FRIEDMAN: That was the second instead of the first.
OLIVER: Well, is there anything more to say about the Pearson Commission Report in terms of its eventual impact or lack of impact?
FRIEDMAN: Well, I think the Pearson Commission Report was, in its own way, a major event. They brought together some good people on the Pearson Commission. They had an extravagant staff in terms of bringing together a very large staff and keeping it there for a couple of years employed by the Pearson commission. My own view of it was, at the time and still is, it had a positive influence on the whole area of development finance, but the stream of history had turned against development. We were sensitive to this in the '60s, but it took, I think, the '70s to make it more vividly realistic. Countries were just not really committed to development assistance. Development assistance really had a low priority. Bilateral assistance, when needed for political-military reasons, had a much higher urgency.

Assistance for economic purposes is where multilateral aid is competitive. You were dealing with very long-term political objectives in the sense of a belief that, in the long run, building economic strength and the social stability that came with it was in the interest of industrial countries. That was where you might let a multi-lateral agency do it. But when it came to more immediate issues, like the ones in the Middle East at that time and indeed in the Far-East... Viet Nam was going on at this time. The opening of China was going to take place. The attention was elsewhere. I feel that the Pearson Report, in that context, was probably as successful as it could have been.

If I may tell you a little anecdote -- a true one. We were talking to Strauss, Woods and I, about getting his support for a larger amount of IDA. At this point, I forget what the German contribution was, but it couldn't have been as much as a $100 million a year, and Schiller -- did I say Schiller? I mean Strauss, the big budget man, the powerful guy in the budget -- Strauss was saying how Germany could not afford this money. I couldn't resist saying that I thought the German IDA Replenishment was not equivalent to the electric lights of Hamburg for one night of the year.
OLIVER: What did Strauss say?
FRIEDMAN: He didn't say anything. He just smiled. Strauss is a very smart fellow, you know, and I didn't say it in an insulting way. I just said it out of sadness. The Germans weren't at all unpleasant about this. They weren't disagreeable in any way. They treated Woods with great courtesy and kindness, but it was like trying to go up the Niagara Falls. You were constantly being beaten down by the indifference of these countries, Bob. You couldn't even get an argument about it. You didn't get a big argument against what you were trying to do. You were just suffocated by indifference.
OLIVER: Is it fair to say that the phrase First or Second development Decade was a more public relations statement than a real hope?
FRIEDMAN: Well, I think it was a public relations statement to some, but I think those who were the proponents of it -- people like Barbara Ward and Paul Hoffman; I would include myself because at this point I was the head of the Society for International Development; William
Clark and Dick Demuth -- those people who were the energetic leaders of opinion, intellectual leaders, in many cases institutional leaders, it was our desire to accomplish this. But it proved to be something that was very difficult to accomplish. I, at the time, didn't think we were going to accomplish it. In that sense, it was public relations, but we were at least all in agreement that, whether we accomplished it or not, it was a good thing to advocate. Now maybe it was wrong, maybe it just meant that you looked defeated in the end. I don't think we seriously said: "Well, we're not going to get this. Is it right for us to be advocating it?" The view that we had, which we all had was that we ought to advocate this. If we didn't get out there and advocate something, you wouldn't get anything. You'd get very, very little. You needed people to get out there -- and go out on a limb. You had the assurances that at these places, in particular in Canada and the Netherlands, you had countries that were prepared to do things. At the critical moments when you needed some country to do something, they were prepared to do something.

OLIVER: Is Escott Reid an important name in this list of people?
FRIEDMAN: Escott Reid was important in the sense that this was the period of time when the Canadians decided that they were going to make a national identification with Third World Development -- more than any other single country at the time. Lester Pearson, Morris Strong and, in that effort, I had the impression that Escott Reid played an important role in convincing the leaders in Canada that this was a proper role for Canada. Escott Reid didn't become an eminent figure the way Barbara Ward became an eminent figure, but he surely was an eminent figure in the Canadian scene; and the Canadians played a leading role in giving the advantage of respectability to this whole effort. This was the time of the Montreal Exposition. (It was all during Woods' time). This was the time when they decided they would commemorate the hundredth anniversary in Canada. It was time to have a public subscription, I think it was $100 million, to be given through private channels for development assistance. I think that was Escott Reid. It didn't work, but we used it at the time. We said it was hard to do that with the public, but, if the fellows in Canada could take a lead in the IDA Replenishment . . . .

Everytime we worked on the IDA Replenishment, whenever we were in trouble, like we needed another quarter of a percent here or a lead there, I always found that I could call the Dutch or the Canadians, in that order, and over the phone, I could get their agreement to amend their position so as to be more generous as an example to others.

OLIVER: Two other areas in which George Woods may have played a role because of his personal relationships were in Brazil and in the enlargement of the consultative groups in various countries. Would you comment on these?
FRIEDMAN: Well, in the case of Brazil, I don't really have too much to say, except that, when I came on board, Woods is quite concerned about the fact that the Bank had no relations with Brazil because of Burke Knapp's presence on a American-Brazilian Commission which had
ended up in disagreement. In some way this had put a damper on relations.

One of my first assignments for the Bank was to go to Brazil to see whether or not I could help patch up relations with the World Bank. I had gone to Brazil a number of times for the Monetary Fund. Within months after I changed to the World Bank, I was in Brazil talking about reopening relations with the World Bank, and I was getting a very warm reception. Brazilians were pleased with Woods and his attitude toward Brazil.

FRIEDMAN: There were two different issues in the case of consultative groups. One was the distinction between consultative groups and consortia. Woods was very much in favor of the idea we should stop doing arm-twisting as we were doing in the consortia and be willing to support the consultative groups, which were providing a mechanism for bringing creditors together with the borrowing countries and other interested agencies, without arm-twisting the donor countries. My role was to be supportive, to say that we could do economic reports and this would fit in with the program of economic work with countries that we were involved with at that time. It was a major initiative under the direction of Dick Demuth. Dick was the one who master-minded it, and we were supportive of it. Dick regarded me as a warm ally in his efforts to expand the role of developers. At that time, Dick proposed that we go to thirty countries, at that time a very large number of countries in which we would have consultative groups.

OLIVER: Well, let's turn briefly now to innovation within traditional areas: the expansive work in education, the work in agriculture, the concern about the population -- these kinds of expanded initiatives. What did you hear Woods say about these?

FRIEDMAN: Very little actually. All I can say is that I knew that Woods was very enthusiastic about the expanded work in agriculture and education, and I was a supporter of it, though I had very little responsibility for it, except that it might involve the economics of shadow pricing. I'm not sure that you might not get a different answer from Andy Kamarck than from me. Andy tended to be more intimate with the lower staff, the middle staff of the Bank than I was, because he had been one of their colleagues. In retrospect, I don't really know how much Andy was involved with some of this work on a personal level, though these people had a lot of respect for Andy.

The one thing that I got much more involved with was population because I had really become quite convinced by the time that I got to the World Bank, that the rapid population growth of the developing countries was a major obstacle to achieving the objectives the developing countries could define for themselves in the way of achieving material well-being. I got to know Bill Draper at that time, which was not related to my World Bank position. It's just that I felt that his concern with population made a lot of sense. When I got to the Bank, I raised the issue, Shouldn't we in the World Bank be much more concerned with population? There I ran into a hailstorm of opposition of people who thought that this would get the World Bank
balance-of-payments difficulty would be on its own reserves. There would be nothing automatic in the sense of export shortfalls: there wasn't a simple formula like that which the Fund finally worked out. The Fund was interested in compensatory financing in trying to find unconditional sources of money. The Fund was always riding the two horses: on one hand, more conditionality, on the other hand, some funds, some liquidity creation. So you had the gold tranche and the easy credit tranche before compensatory financing.

Compensatory financing in the Fund is in the spirit of How can we make something not conditional? In the World Bank it is different. The Supplementary Finance Scheme is really in the spirit of How can we make it conditional? How can we use the assistance that we give at the time not only as a way of providing the needed resources but also of making sure that the resources would be used for the defense of development. This meant, of course, that we would give a high priority to what they were doing with the relevant program. It wasn't going to be automatic. It was just a very different view of the function of balance-of-payments support.

OLIVER: Let's turn to the general subject of relations between the Bank and other organizations. We've touched upon relations between the Bank and the International Monetary Fund. We may want to say more about that, but let's bring in UNDP, for example, and UNCTAD as well. While you're at it, maybe you can comment on the Horowitz Proposal being circulated in the Bank about the time you came to the Bank.

FRIEDMAN: I think, on the UNDP, the only thing I can add that's useful is that Woods had a very high regard for Paul Hoffman, and a lot of personal affection too. It wasn't just a collegial relation. He regarded Paul Hoffman as belonging to his caste. He was someone he had known before either became involved in public affairs. They had known each other in their private lives.

OLIVER: Had First Boston ever helped finance Studebaker?

FRIEDMAN: I don't know. It surely wouldn't surprise me if they had because that's the kind of league Studebaker was in. That's the kind of league First Boston and its predecessors were in. These people obviously knew each other, and Dick Demuth, who was in charge of relations with the UNDP, was constantly coming up with suggestions of more intimate relations between the UNDP and the World Bank. At the President's Council this would be reported and was constantly being, as far as I can recall, supported by Woods. I think Dick Demuth's recollection on this would be better than mine, but my impression was that Dick was busy trying to think of ways in which we might become the executing agency for the UNDP. As the UNDP grew in size, they would be financing technical-assistance programs the substance of which would be executed by, or administered by, the World Bank.

Paul Hoffman had a luncheon at the Governor's Conferences, and Woods was very pleased when I told him I'd been invited to come to these luncheons. I was the senior person able to come to the luncheons in a very busy schedule of events at a Governor's Conference. Woods was encouraging to me to go and not worry about the fact that I might not
will become part of the regular administration of our country which is already not nearly as good as we have for World Bank projects."

I struck a deal with them whereby everything that we would give to Thailand they would plough back to buy World Bank Bonds. Our net outflow went to zero, but they would continue to have what they perceived (more clearly than we had perceived) to be the great benefit of World Bank activity. I found this, at the time, a very interesting example of some of the qualitative contributions that the World Bank was making to development. In terms of numbers it really wasn't all that big, but obviously the Thais, who always did run a pretty intelligent government, were so aware of their difficulties and their needs that they really placed a very high value on the presence of the World Bank in their country.

OLIVER: That's a very interesting story. It induces to me ask, in passing, whether or not in your own thinking about supplementary finance, which we talked about yesterday, the size of a country's international reserves should be taken as a major indicator of the need for supplementary finance. Yesterday, it sounded as though we were talking solely in terms of fluctuations in the export earnings of the country. In the case of Thailand, its export earnings in some sense were rising because of the American bases in Thailand. I take it that might of been used as an indication that they would not have been eligible for supplementary finance.

FRIEDMAN: I hope my memory is not playing tricks on me, Bob, I really hope so, because I have lived with a lot of problems since then. You never know -- at least I don't know, I get mixed up, my memory gets mixed up. My recollection of it is that the supplementary finance idea would be, to take Thailand as an example (which we didn't use as an example) . . . I think I can apply it correctly.

If Thailand had been projecting that it was going to earn $2 billion a year in foreign exchange, let's say $1 billion from the airport (from the American presence in Thailand) every year from 1965 to 1970; and if Thailand had gone ahead and the international community had agreed to it, so this was now a program that has been scrutinized by the World Bank and the same figures would be given by the Monetary Fund -- major international institutions have not found fault with this projection -- investment decisions based upon it would have been regarded as reasonable. If the United States, say, in 1967, pulled out of Thailand unexpectedly and export earnings fell from $2 billion to $1 billion, we would deal with the $1 billion short fall. In dealing with it, we would take into account the fact that the country had access to its own monetary reserves and access to the International Monetary Fund. What we didn't do -- if I remember correctly, and I think I remember this -- we did not assume that they could go to the private markets and finance imports out of the commercial banking system. That's why I said I think supplementary finance had a lot to do with the evolution of commercial banking lending.

We didn't provide alternatives for countries in difficulties in sufficient magnitudes. I'd be very surprised if we did not assume that one of the first calls that would be made by the country in external
deal with the unfavorable climatic or health conditions there.

One of the people he loved to tell about was Nkruma, because he went to Nkruma at one point, and Nkruma was a very vigorous and important leader of African nationalism. He was very, very taken with Nkruma and loved to tell the story of how he was invited out to the Nkruma’s house over a weekend. Nkruma had invited him to meet his family and his children. He was having a very nice time, and, when he got through, he turned to Nkruma and said, “Boy, you’re really a White Man aren’t you?” Looking back on it, he thought very highly of Nkruma that he didn’t take offense. Nkruma might have been disturbed. Woods was very impressed with the fact that Nkruma understood completely. It was not a racist remark; from George Woods, it’s a high compliment to be called a White Man. Woods used to tell that story a number of times as a personal experience that he enjoyed having.

OLIVER: Nkruma had spent enough time in the United States, so as to be reasonably familiar. . .

FRIEDMAN: To know that expression. In Western Europe, however, Woods tried very hard in the IDA Replenishment to get to deal with people at a very senior level. He did it personally — to get to see people like Callaghan, the Chancellor of the Exchequer; or to see Strauss, who, at that point was a very powerful figure in Germany; and to see — I forget who it was in France. It was not DeGaulle.

OLIVER: Michel Debré perhaps?

FRIEDMAN: Maybe, perhaps it was.

OLIVER: Giscard?

FRIEDMAN: Maybe Giscard. He could take advantage of the fact that these Ministers of Finance were his Governors. He would see someone like Schiller in Germany, and Michael Sharp, Minister of Finance, in Canada. It wasn’t always the Head of State, but it was at the Ministry of Finance. That was quite helpful, because he was able to transform the issue of IDA, not into a technical discussion among people in the civil service, but into a political discussion of what they really wanted to do in the field of development assistance. In the course of that, he developed some very close relations with people like Callaghan, for example, and with the Canadians. This was the forerunner of the Pearson report. He got along with Pearson. He had already been an admirer of Pearson, and he thought that Pearson was the right kind of guy to hold a — let’s see what did they call it then, I forget the words, holding a scrutiny — it’s a biblical term — of the world development situation.

OLIVER: Sounds like a seminar to me.

FRIEDMAN: No, no, it wasn’t a seminar. It was more like an inquiry. He knew Pearson from the old days. He invited me to come with him to have lunch with Pearson in Canada, and Pearson had his principal economic and financial ministers. Woods did not do much with the civil service. He was trying to see the people at the top level.

He seemed to be quite taken with Andrew Cohen, who was head at that time of the foreign aid agency. This was the time when he was very friendly with Barbara Ward. He had this idea that if you
into trouble. Indeed, when I tried to get Woods to say something in his speeches, he told me that other members of the staff had told him, if you do this, maybe you would get some of the Executive Directors, but the Mexicans won't like this and the Brazilians won't like it. Even the Argentinians won't like it even though they had one of the lowest population growth rates in the world. In some mysterious way, they managed to hold down their population growth rate while at the same time in principal they were opposed to family planning and did not try abortion.

Woods was being told he'd better not say anything in Brazil, but he was friendly with people like John D. Rockefeller III who shared very much the point of view that population growth was an important complication for developing countries. Woods lent his moral support, but that was all. I identified a population economist at Princeton. (Princeton at that time already had, still has, one of the leading development study groups in the American academic world.) This was a young man who had gotten a five year fellowship at Princeton to do a PhD in development economics, which at that time is still very rare. I tried to get him hired in the World Bank. I did not succeed. It was the only appointment that I remember where I was specifically turned down, and I was turned down on the grounds that it would be inappropriate for the World Bank to have a development economist and to identify itself thereby with an interest in population control.

I got somebody who was an Englishman on our staff and dealt with national income analysis and things of that sort, and he became my population expert. I sneaked in population by the back door by not having to hire someone. I knew Woods wasn't against it. I was getting this from the administration, and that wasn't my first problem with administration. I found the administration people were, in a very nice and polite way, stone walling. We don't need to change the Bank. If we do, remember we are bankers, and we don't do things that give us an image other than of a very solid bank. So I didn't get to hire a population expert, though we went on to do a lot of work in population.

OLIVER: By 1970, there was a full-fledged Population Division in the Economics Department.

FRIEDMAN: That's right. That man became head of our first division. We did establish a division.

When McNamara came, a lot of things changed, partly because Bob himself was a really strong supporter of doing something in the population field. Much more than Woods. Bob was involved in contraception and the pill and other things. Shouldn't we help finance research? and so forth. We went considerably further than I had even suggested to Woods, because I don't remember Woods ever turning me down.

The other thing I think, Bob, in understanding this period of time is that the preoccupation with Viet Nam had not yet been transformed into a view that we had to do something about development. That's in the '70s. It was very incomplete in the '60s. In the '70s, you get people like McNamara, who have been very active in the Viet Nam War,
becoming very strong advocates of doing something for the Third World Countries. That's not a correlation that has existed in the '60s. Now and then in the '60s you have a guy like McNamara saying, "You know if we had more development assistance, maybe we wouldn't have this great social instability that leads to things like Viet Nam." But that's not the usual thing. The usual thing is We've got Viet Nam, and that's enough on our plate. We've got our problems. We've got inflation. Why do we need to worry about development assistance?

There was a kind of liberalization that went on in the '70s: the acceptance of interest in subjects like education, health, literacy, longevity of life, population. You have a very interesting contrast. People still were stingy about providing money, but they were much more open-minded about what should be the content of development, much more open-minded that you ought to be concerned with social as well as economic criteria. The whole concept of basic human needs, begins to get rooted in the early 1970s.

OLIVER: But now there is a counter attack.

FRIEDMAN: Exactly. The '60s are different than the '70s.

OLIVER: Did the appointment of McNamara surprise you? The tradition of the Bank had been to have someone from the New York investment community, like John J. McCloy. Then suddenly a man appears who had been with the Ford Motor Company but was not thought of, in New York at least, as being a leading investment banker.

FRIEDMAN: Well, I don't remember how surprised I was, but I would dare to say now that I was surprised. I personally had not heard his name mentioned as one of the people who was likely to be appointed. I had heard frequently the names of Douglas Dillon and David Rockefeller. At the time, it was probably wish fulfilling, I assumed that George Woods might decide to stay on.

I knew from my experience in international institutions, that an incumbent nearly always has an option to stay. He might have a lot of people criticizing, but the fact is that the persons who were appointed were persons of eminence and distinction with success in their record. Woods was not regarded as being as successful as President of the World Bank as he had been as Chairman of First Boston, but he was still George Woods. He was still a very eminent and outstanding personage.

My memory is that I still regarded Woods as one of the candidates until I heard someone else's point of view. I remember people telling me, I think it was Burke Knapp telling me in the halls as I was on my way to Woods office that McNamara, the Secretary of Defense, would now be head of the World Bank. I remember feeling disappointed, not because I had any strong feelings about McNamara, but because I still wanted George Woods to stay on. My disappointment was that there was no point in dreaming any more about Woods staying on. As far as I knew, Douglas Dillon and David Rockefeller were perfectly respectable names. Stories I heard about Woods and Dillon and Rockefeller really came later. Woods had retired to New York, and we were having lunch together; we were chatting about these things. I got insights from him looking backwards that I didn't have at the time.
I think in the World Bank, we also felt that one thing about the McNamara appointment was that he was a very eminent person, that there was no question about his being a person of great prestige. I think my own feeling about McNamara was that he was a numbers man. I think my concern with McNamara’s interest in numbers proved to be very well founded.

When I met McNamara for the first time in my life, I went in to see him. I remember having a splitting headache. I’m sure it was tension at the time. I offered to resign. I was the only one who had a level of administrative function as a new vice president. I was The Economic Advisor to the President. I had an advisory role as an important part of my relationship with Woods. Woods thought of me as an advisor as well as head of the economic personnel and economic work.

I suggested to Mr. McNamara that he would want to have his own advisor. He said, “Oh no, Irving, I’ve heard a great deal about you. I want you to stay. But you have to promise me... You know I have a weakness for numbers. Please protect me from my weakness for numbers.” I tried. It worked for about six months. It worked fine because I would remind him that he had told me to protect him. But after awhile, he forgot his own admonishment. I think he got quite resentful when I reminded him of what he told me. It’s interesting because he understood his own weakness very well, but he underestimated the strength of his own personality. He was strong enough to carry the weakness on his back, and he just kept on doing what he thought he wanted to do.

I don’t remember whether I expected any particular changes. Probably not. My own experiences going back in the Fund and the Bank was that senior staff changes on the top were very important, but they weren’t threatening. There would be change, but nothing changed all that much. I really don’t remember having any great premonition that McNamara would bring in anything bad. Woods was very quick to tell me how pleased he was that McNamara was appointed. He had already pointed out to me a particular speech McNamara had made in Canada which Woods very much admired. As far as I was concerned, I didn’t know McNamara. I knew of his involvement in the Viet Nam War, but that didn’t tell me anything about what kind of person he was. If George Woods spoke well of him, chances were that I would too. McNamara was a disappointment because I enjoyed my relations with George Woods. As far as I was concerned, the most pleasant appointment for me would have been the continuation of the same person.

OLIVER: In New York, who were the persons George Woods counted on and thought of as his close friends? Nelson Rockefeller is always mentioned. Why Nelson Rockefeller in particular? And who else was at that level?

FRIEDMAN: Well, there was the Kaiser family, in California. They were very close to him.

OLIVER: That was for business reasons.
Friedman: No. It began with business reasons, but the impression I got from Woods was that he had been introduced into the family as kind of a foster father for Edgar Kaiser. Edgar Kaiser had introduced Woods to his children as being sort of their uncle. You know, very personal. When he got a bad leg, a circulation problem, they sent a plane and brought him out to California to the hospital. When Woods needed a plane to go anywhere, it was the Kaisers who supplied him with personal services. He felt very warm about the Kaisers. I don't know how much he saw of the Kaisers in New York, but he went frequently to California after he left the World Bank.

Then, as you mentioned, Nelson Rockefeller. The other Rockefeller he seemed to feel very warmly about was John D. Rockefeller III, who was quite active in the Japan Society. Woods was very interested in Japan, and he was very interested in the population issue. John D. Rockefeller was chairman of a population group, and he got Woods to be deputy chairman. Nelson Rockefeller was Governor. Woods was very friendly with Nelson Rockefeller who got him quickly involved in the bond market and the rating of New York State and the difficulties it was having in arranging funds. He thought Woods would straighten that out for him.

André Meyer is another name that he mentioned with great affection. I have no idea how often he saw these people. Sulzberger is another name he mentioned. There are individuals like Russell Baker of the New York Times. One other person, a columnist from the New York Times was Tom Wicker. These are names that he mentioned with a great deal of affection, people that he knew well and felt at ease with. I don't think he felt at ease with probing political columnists like David Broder, but these were gentlemen columnists who talked about New York and the world.

Douglas Dillon, he thought well of, but how often he saw Douglas Dillon, I have no idea. Obviously there were cohorts at First Boston like Patberg, who, unfortunately, at this time had already come down with cancer. He was Woods successor and was on the verge of retiring or had just retired. George Shin had become chairman. George Shin was not from First Boston. He came from Merrill Lynch, but clearly these were people in New York who were like George Shin. Woods wasn't that friendly with Andy Overby, who was our mutual friend. He would say nice things about Andy, but I didn't get the impression that he would see that much of him. As far as I knew, outside of David Rockefeller, he wasn't into commercial banking. He knew people like Wristen in Citibank, but I don't think they were cronies in any sense of the word. His cronies were relatively few.

He was a great admirer of the Rockefeller Foundation. I remember on two or three occasions we'd be sitting somewhere, I forget exactly, and somebody might say that the Ford Foundation was the largest foundation; and he would turn to me, very irate, and said, "Nothing can compare to the Rockefeller Foundation." He had this great admiration for the Rockefeller Foundation, and I'm sure there were individuals in the Rockefeller Foundation who Woods might have identified personally with. They were not part of my group, so I
don't know exactly whom he had in mind, but the Rockefeller Foundation could have been a burden to him instead of an example of American Society at its best in taking care of people.

He was very inciteful. We would have interesting conversations. For example, we would talk about education. In most cases he would initiate the conversation; he would like to talk about education in New York City. He was a great advocate of free education, making the point that the whole secret of New York City, at least its great strength, was that one generation after another of immigrants -- the English, then the Irish, then the Germans, then the Jews, then the Italians -- had come to New York and Boston, and there they had found the benefit of a free, higher education; and, through higher education, these immigrants had made their way into American Society. This was a real insight from his point of view as to why American Society had been so successful. We had provided the mechanisms for these poor immigrants to become part of American society by giving them the education they needed to compete in the American World. He would love to illustrate this with people he would meet. "See that guy? He came here from Italy. He went to NYU (or he went to City College), and now you can see what he is. He is the head of Manufacturer's Hanover," or something like that.

He seemed to take great delight in the mobility of American society. He never talked about his own mobility. When you talked to him, you wondered whether he was talking about himself. He didn't talk about himself. He was always talking about this in semi-

philosophic terms. He was a great admirer of the American system. Not in any fraudulent sense. His whole interpretation of it was very personal. Not that he had views that were unique to him, because obviously Horace Greeley and others had thought of this before. I don't think he had read Horace Greeley. I think this was his perception coming out of his own experience. So for me, he was a very interesting conversationalist. I never had a dull moment having lunch with George Woods, and I had lunch with him many, many, many times.

It was never dull because Woods would take any subject and personalize it. There wasn't anything that went on in the world that he didn't have a view about. He was a great advisor to me. Whenever I would talk about going into business or something like that, he would say, "Oh, Irving, you can't do that. Business success is not what you think. Business success is being able to buy and keep a file cabinet, keep a desk to keep your typewriter on, pay the bills. You would never succeed in business. I can't imagine your doing any of these things."

He had this way of debunking a lot of stuff that people were talking about. I would tell him that I had heard people talking about external debt problems, and he would say, "If you want to know about external debt, I'll have you to lunch with André Meyer. He'll tell you more in a half an hour than all these jokers will tell you in days. The people he debunked -- he was not debunking academics -- he was debunking the chairman of this bank or "That guy; he's just a bond salesman." That's the way he could dismiss someone like Bill Simon:
"Just a bond salesman. Secretary of Treasury? That's a joke."

He was a very sophisticated person with a great deal of knowledge and a very debunking attitude with many people, but yet he wasn't himself a debunker. His life was not devoted to debunking. Here was a guy who would love to see IDA replenished and love to help poor people and worried about the population explosion, but he did not like fraud. I really was very impressed with Woods. You couldn't impress Woods with your position, or your money, or the way you looked, or the home you had, or the clothing you wore, or the car and the chauffeur you had driving around. It just didn't impress him at all. I found he had a very, very attractive personality that way.

The thing that was so interesting, Bob, was he never saw in me a replication of himself. You know it wasn't as though he greatly admired you because he saw you as a somewhat younger edition of himself. I was a completely different person. He saw me as an intellectual, as a person who knew a great deal about the monetary system and worried about the world, who knew a great deal about the world, a great deal about problems and what to do about them. But we were in different worlds. I think one of the reasons why he and I got along very well all the time was -- in my mind -- he never tried to make our social lives mix. I respected this. He was different from me. It didn't mean that he wasn't affectionate. He was. He wanted to have lunch with me alone. That's what he enjoyed, and I'm sure that must have been true of his relations with other people.

He enjoyed people for what they were rather than as part of a social group. He didn't refer much to social groups. He didn't really refer to the fact that "I had dinner with eight people," or something like that. "I had dinner with the former French Ambassador. Handsome fella. What's his name?" or something like that. "He came to see me last night on his way through, he and his wife came over and he and Louie and I had a very interesting time talking about things". He was a very one-on-one kind of person, and I think that it would be hard, Bob, to put together a picture of him, because everybody in this one-to-one relationship sees only a fragment and probably has a different perception of the person because of this one-to-one relationship. He was rarely on stage. You rarely saw him in a public, generalized capacity. He was always a very intimate person in the sense of dealing with him as an individual.

I'm sure my view of Woods is very different from that even of people who were contemporaries of mine in the World Bank with comparable kinds of positions and responsibilities. They could come away with very different views of Woods.

OLIVER: Well, thank you very much for this fascinating conversation and discussion. I think that when your words find their way into the Archives of the Bank and the George Woods Oral History Project at Columbia, it will be a very substantial addition to the knowledge of this period of American history.

FRIEDMAN: Thank you. I enjoyed doing it, Bob.