THE WORLD BANK GROUP HISTORIAN'S OFFICE

ORAL HISTORY PROGRAM

Transcript of interview with

S. SHAHID HUSAIN

March 18, April 20 and June 14, 1994
Washington, D.C.

Interview by: Louis Galambos, William Becker, Jochen Kraske and David Milobsky
Q: I'm William Becker with Business History Group and the George Washington University.

Q: And I'm Lou Golambos with the Business History Group and Johns Hopkins University.

Q: I'm Jochen Kraske, the Bank's historian.

Q: And I am David Milobsky, the assistant to the historian.

HUSAIN: I'm Shahid Husain, Vice President of The World Bank.

Q: We would like to start with a little background on your earlier life, and your family.

HUSAIN: Well, I was born in what is India now, in the State of Bihar. My father, like most of his generation in our family, was a landowner and a public servant. My grandfather had migrated to Hyderabad State and was working for the Nizam of Hyderabad in the south of India, while we kept our ancestral home village and landholdings in Bihar. Most of our entire clan lived there. My father graduated from the University of Dacca, and entered the Provincial Civil Service in Bihar in India. Around 1938, he migrated to Hyderabad to work for the Nizam, initially as Deputy Secretary on Constitutional Affairs, then as Secretary of Information and Education. That's where I got most of my education. At the time of the partition of India, he was Hyderabad's Agent General in the Middle East. When the Indian troops came into Hyderabad, my father and mother were out of the country. There was a gunrunner called Sidney Gordon, who had bought some old British bombers and was shuttling between Karachi and Hyderabad. He picked us up at night on the last day of Hyderabad's freedom.

Q: How old were you at this time?

HUSAIN: Sixteen.

Q: Sixteen.

HUSAIN: And so our extended family of 60 people landed in Karachi sometime in September, early in the morning, just with the clothes on our bodies. I'm one of sixteen children.

Q: Which number are you?

HUSAIN: I'm number three. I started studying science and engineering and didn't do well at all. At first, I tried to go into the army in Pakistan, but the army didn't take me. Then I tried to go into the navy; they didn't take me either. Then I got into the air force, and they asked me if I had been rejected by the army or the navy. I said yes, so they didn't take me either. I then studied engineering for a year and failed; then I left home.

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Q: I knew we had a lot in common. I studied engineering for a year and a half and failed.

HUSAIN: I got so disgusted with myself that I left home and went to the north of Pakistan to a Province called Quetta. Deciding to pull myself up with my own bootstraps, I went to work in a coal mine, but it was very cold there and when my money ran out I came back home.

Q: Was it surface coal mining or shaft?

HUSAIN: Shaft.

Q: Shaft?

HUSAIN: Yes. After I returned home, my father took me to a person who was Economic Advisor of the State Bank of Pakistan. He had just come back from the London School of Economics. Working with him for a little while, he sparked my interest in economics. I soon went to study economics at Karachi University, where I was first in my class. Next, I went to the London School of Economics, finished my degree there, and took the Competitive Examination for the Civil Service of Pakistan. I then attended Oxford for a year, before returning to Pakistan as an assistant district officer, first in the south of Pakistan, in Hyderabad, then near Lahore. This was around 1961, in the middle of martial law. I was traveling on horseback in the border area between India and Pakistan, and there were a lot of empty houses left by evacuees, so a village headman came and said that he wanted to establish a girls' school there. I told him to take an empty house and put up the girls school. A week later he came back to me saying that an army major had come and thrown them out and taken over the house.

Now, district officers are pretty big people. They were in charge of the judiciary, the police, the customs, the tax collection, everything. Needless to say, I was pretty annoyed, so I called the superintendent of police, asked him to send me six police constables, took my Jeep and threw the major out of the house and returned it to the girls school. Two days later, I got a call from the Governor's office. It turned out that the President and head of the army, General Ayub Khan, had called the Governor and said that I was trying to discredit the army in a crucial border area and I had to be moved out. I moved out, but an inquiry was held and the major was also reassigned.

In the meantime, I worked on the War Book, a book on what would happen to the civilian government in the event of a war. After that I was briefly Deputy Secretary of Planning and Development in West Pakistan. In '62 I came to Williams College for a graduate course in economic development.

Q: Was this seen as part of your advancement within the Civil Service?

HUSAIN: Yes. Yes. Williams had a course there for civil servants in development economics. In the meantime, I also wrote to the World Bank. They called me in for interviews, and I came to the World Bank to work as an economist.

Q: Was that your first encounter with development economics or had you done development economics at Oxford?

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HUSAIN: No. At the London School of Economics, at Oxford, and as the Deputy Secretary of Planning in West Pakistan, I was very much involved in public investments (in project selection and so on), so it was not my first encounter with development economics.

Q: When did you decide to leave Pakistan?

HUSAIN: I did not make a decision to leave Pakistan, actually. I initially joined the World Bank only for two years as economist in the Development Economics Department. My first work was on issues of external debt and economic development. I co-authored a book with Dragoslav Avramovic. In the beginning, I used to feel very left out because Pakistan was doing very well until the 1965 war, and I kept asking myself, “What the hell am I doing here while the action is out there?” Nevertheless, I had a succession of very interesting assignments which kept me absorbed, and then I stayed on.

Q: Could you tell us a bit about how the Economics Department operated at that time, and give us some sense of its size, the way it was organized, and how people worked together?

HUSAIN: Well, it was a small department. My recollection is that it consisted of fifteen to twenty professional people. There was a Division on Debt that was considered critical, particularly to the analysis of creditworthiness of countries. The debt problem had not assumed the same proportions as it assumed later, but clearly it was regarded as an important element in a country’s development. There were also a section on Commodities, and on Project Evaluation. I came into the Debt Division and immediately started doing some analytical work. I had some math background, and did a fair amount of modeling work on issues of economic development and growth. In fact, before that, a lot of debt work was purely statistical, and this book that I co-authored was the first attempt to look at the whole issue of debt in relation to overall economic development—savings, investments, and the quality of the outcomes.

Q: Very often in an organization, young people acquire mentors to help them along. I had a mentor, Al [Alfred D. Jr.] Chandler, who just retired at the Harvard Business School. Did you have someone who sort of helped you with your career and gave you advice?

HUSAIN: No, I was more of a self-starter. When I came to the Bank, the Director of the Economics Department was Dragoslav Avramovic and he asked me to work with a man called Philip Hayes, who was in charge of the Debt Division. Philip Hayes didn't pay very much attention to me. He just told me to go and do some work on external debt. So I closed myself in my room and read a lot of books on debt, then I bought some books on mathematics, constructed a mathematical model, and did a lot of charts on the progression of debt and economic growth.

At that time, there was a woman working in that Division who had been my colleague at the London School of Economics. Her name was Doreen Compton. I was fairly lonely and I brought her in and showed her some of my work. She went back to Avramovic and she said, “You should look at some of the work that Husain has done.” I showed him my work and it excited him; we then started working very closely together on an analytical framework for external debt issues.

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My initial mentor, I would say, was Avramovic. We did a fair amount of work on the debt issue in India, Colombia, and Brazil. It attracted a lot of attention. Even the President of the Bank learned about our work. The Finance Minister of Pakistan told me that the President mentioned a very bright man from Pakistan was doing groundbreaking work on external debt and economic growth.

Q: Did you have much contact professionally with economists outside the Bank?

HUSAIN: No. None at all.

Q: Was there any work that was being done that seemed to link up with yours? The reason I raise this question is that this was a growth field in economics at that time in the United States.

HUSAIN: Well, my view is that there was not much work done on external debt issues outside the Bank. I think that the Bank's work was, at that time, probably ahead of others. There was a lot of work on macroeconomics, but I believe that linking macroeconomic analysis with the issue of external debt was unique to the Bank during this period. Besides, I had no personal contact with the academic community at that point.

Q: You said that you originally joined the Bank for two years thereafter you completed your work at Williams...

HUSAIN: Yes.

Q: . . but that was a little different than Washington, D.C., certainly.

HUSAIN: Yes.

Q: Were there any problems in adjusting to life in Washington?

HUSAIN: No. I had been used to moving. I had that traumatic move at the age of 16 from India to Pakistan, then I had lived in London for three years, and Oxford for a year, so I regarded myself as a fairly international, cosmopolitan person. Moving to Washington was not a major issue.

Q: You mentioned Oxford and we jumped over that quickly. What was your reaction to Oxford and the work that was being done there?

HUSAIN: Well, Oxford was fun compared to the London School of Economics, where I really worked hard. I formed my intellectual foundation at the London School of Economics. It was a period of very intensive work in a very stimulating environment with very able teachers. It was a rigorous program based in logical thought.

When I went to Oxford my tutor asked me to write him an essay, so I wrote him an essay. Then he asked me, "Did you write it yourself?"

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So I said, “Yes, I wrote it myself.”

And he asked again, “Did you write it yourself?”

And I said, “Yes, I wrote it myself.”

So he said, “In that case, why don’t you go and enjoy Oxford,” and that’s what I did.

Oxford had a lot to offer, not only intellectually but socially. It was fabulous. London School of Economics was hard work and vigorous intellectual training. Oxford was a broad exposure to a variety of issues and, socially, a very interesting period.

Q: Where did you go on your first overseas mission for the Bank?

HUSAIN: My first mission was when I was still in the Economics Department and we had finished our work on debt. At that time, two big missions were organized: one to India led by Bernie [Bernard R.] Bell and another to Brazil led by Barend De Vries. These were the two huge missions.

In Brazil, there had just been a coup after a period of total economic chaos, and this mission was going to take a deep look into the Brazilian economy. It consisted of 20-25 people. I was assigned to that mission.

They assigned me to the Brazil mission in March or April, and the mission was to leave in October, so I spent that time studying the Brazilian economy and wrote a long essay on the relevant development economic issues. The head of the mission circulated my essay to all the members of the mission, and it eventually became the basis for the economic report on Brazil, and I, for all practical purposes, became the chief economist of that mission.

Q: Had you been assigned that essay, or did you do that on your own initiative?

HUSAIN: I did it on my own. There used to be a Personnel Officer called Harold Dyer. He had recruited me, and I used to feel very close to him. After I finished my report on Brazil, I went to him and said that I wanted to go and work on Brazil as loan officer. Dyer went to the then Director of the Western Hemisphere Department, Gerald Alter, and suggested to him that he take me. Alter already knew me from the economic work and the Brazil report, so he called me in and asked me why I wanted to work as a loan officer? He wanted me to be an economist. I told him that I was not really a trained economist. On the contrary, I was much more a generalist, and preferred to work as a loan officer.

So I started to work as a loan officer on Brazil. Gunter Wiese was in charge of the Brazil Division, and he treated me very well.

Q: I wanted to ask you about that transition from economics to the loan officer position. Was one position distinctly staff and the other distinctly operational or line?

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HUSAIN: Well, the loan officer in those days was in charge of country relations, country coordination, and the negotiation of loans. In short, he was regarded as the Bank's front man in a particular country. The economist, on the other hand, wrote economic reports. In the Western Hemisphere Department, the economist was a little more important than elsewhere in the Bank, but nevertheless, the economist clearly was regarded as a person who played the second fiddle. I also felt that the loan officer position was better suited to my own strengths and weaknesses. Even though I had very rigorous training as an economist, I considered myself a better generalist than an economist. I didn't quite envision myself as a person who would spend the rest of his career just writing economic reports. Since I had already been a district officer in the government in Pakistan, the sort of work that a loan officer did came much more naturally than an economist's work.

Q: Would you like to go on now and tell us a little bit more about the relationship with Brazil, and how that developed?

HUSAIN: Well, very soon after I got into the Brazil Department, I found that, intellectually, I had brought more to the job than any of my colleagues did. I brought the tremendous strength of my rigorous training in economics, and I soon became the Bank's chief interlocutor with Brazil. I established a very close relationship with the Finance Minister, with the Planning Minister, and with other people in Brazil. Even though there were three loan officers on Brazil at that time (my sectors were transportation and agriculture), I developed the habit of writing two reports every time I returned from Brazil: a report on political developments and a report on recent economic developments. Nobody else ever did that. No loan officer did that. These reports soon became the basic vehicles for discussion of the current issues of Brazil.

Q: The Planning Minister was Campos?

HUSAIN: Campos. Roberto Campos.

Q: And the Finance Minister?

HUSAIN: Octavio Bullores. At that time, we identified transportation as the big issue in Brazil, so I engineered a substantial technical assistance project on Brazil for a study of the transportation sector: the railways, the roads and so on. We made a technical assistance grant to Brazil, and I took one of the Bank's Vice Presidents, Siem Aldewereld, to Brazil to negotiate that grant. It worked very well. We got the UNDB to finance the second part of it. It became the basis of the Bank's dialogue on the reform of the transportation sector in Brazil. It became the basis of the Bank's subsequent projects in Brazil.

Even though transportation was my main responsibility, I also developed a very close link with organizations in the power sector. I had a lot of friends there, and in other sectors, so I probably became the most knowledgeable person on Brazil at the Bank fairly quickly.

Q: You said that you developed two reports instead of just one. In some organizations, when you do something on your own, people get very suspicious. In other organizations, when you do

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something on your own they say, “That’s wonderful.” Did the Bank encourage your innovative efforts?

HUSAIN: My view is that the Western Hemisphere Department in the Bank, at that time, was managed by a particularly enlightened person. He was not a great manager, but he was ahead of his time. His name was Gerald Alter. Intellectually, he was very sharp. He did more than any other Director in the Bank at that time to link the Bank’s operations with the economic issues in the client countries. He wanted to pursue an economic dialogue with countries, and I fitted very well in that mold. I brought to the job an acute operational sense and the capacity to get big things done. I cannot recollect many loan officers at my level, at that time, who had developed the sort of close personal and professional links with the finance and planning ministers of a major country like Brazil. Most loan officers would not have gotten to see the planning and finance ministers in their countries.

Q: What were the backgrounds of some of the other loan officers?

HUSAIN: There was one loan officer who was the senior loan officer when I came. I brought an intellectual quality to my work which others didn’t. I could have a dialogue with economists. I could have a dispute with them. They couldn’t.

Q: Moving into this particular position, were you related to TOD at this point? What was your relationship to the technical side of the office?

HUSAIN: Well, in those days the Bank’s project work was done by the Technical Operations Department, which later came to be called Projects Department, and it was divided between divisions. I found no difficulty in dealing with them. Most of them became my friends.

Q: But that was not universal. Some loan officers struggled.

HUSAIN: But there was a coincidence also . .

Q: Is that right?

HUSAIN: It just happened that three apartments removed from mine was living a man called Mr. Aldewereld, who was later to become the Vice President of the Technical Operations Department. That didn’t hurt my relationship with his subordinates.

Q: Nevertheless, there was some strain between the loan officers and the technical operations people.

HUSAIN: On the transportation sector, I became the Bank’s chief man in Brazil. That meant that I had to have a sufficient grasp of the issues. The head of the transportation division, Warren S. Shahid Husain

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Baum, would trust my judgment more than the judgment of his people. The top people would be important on project issues, but on key strategic issues, I was the Bank's transportation man in Brazil.

Q: So, both socially and technically, you established your position?

HUSAIN: I think so. Yes.

Q: Then you moved up to become a divisional chief.

HUSAIN: That was '68.

Q: That was rather fast, wasn't it?

HUSAIN: No. That wasn't that fast, at that time. Subsequent steps were made very fast. I became division chief when I was 36. That wasn't that fast. I'd been at the Bank five years. I had established myself as a very strong loan officer. I had been rated "Exceptional" every year, and then McNamara came.

Q: How did [Robert S.] McNamara's arrival affect you?

HUSAIN: It was very exciting when McNamara came to the Bank. It was like a massive injection of adrenalin. The atmosphere became electric.

His first overseas visit was to Brazil and this was just before I became a division chief. I was a loan officer, and I went there to make arrangements for his visit. I hadn't met him before. On that mission, I discovered his tremendous capacity to focus on issues. He went to the Northeast to look at an irrigation project which the Brazilians had proposed. My director and my division chief were up all night trying to learn about that project, and McNamara comes in, asks the Brazilians ten quick questions, and gets all the important facts.

I became division chief in October of '68. Before that, the Bank did not have lending programs. It did not have country strategy papers. The theory of the Bank was that the Bank did not finance programs; it financed projects, and therefore, each project should be viewed in its own merit. The Bank did not plan to lend X amount to a country. The Bank was a reactive organization that focussed on individual projects, judging them on their own merit within the country's credit worthiness.

Now, USAID [U.S. Agency for international Development], which I got to know very well in Brazil, used to have lending programs. Before McNamara came, we formulated a lending program for Brazil and took it to the then Vice President of Operations, Burke Knapp, who became very angry when he looked at the lending program. He said, "We don't have lending programs in this institution because we cannot have the objective or target of lending X amount to any country." He threw it out and there was no lending program because he did not want to operate from a lending program. He wanted to look at projects as they came.

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As soon as McNamara came, he said that we should have country programs on each country. Later, he told me that during his first weekend at the Bank, he took graph paper and put all the countries in order of their populations; and in the second column, he wrote down the amount of loans that the Bank had made in each country. He came across two countries, Indonesia and Egypt, where the Bank had not made any loans. He asked himself why this was so. Then he asked about the basis on which the Bank made loans. No answer could satisfy him, so he immediately decreed that there should be country program papers on each country, which he would personally review.

Since I was the best penman in the Western Hemisphere department at that time, I prepared the country program paper on Brazil. It was reviewed with McNamara, along with many others, and he said that the Brazil one was the best that had come across his desk.

Later on, when I became division chief, we wrote another paper and it received the same praise. I also had a chance to present a number of loans to the Board [of Executive Directors], including a couple of transportation loans where the approach was fairly innovative. They linked loans to performance on key issues. Uneconomic railway lines were closed, and roads were built in accordance with the cost-benefit criteria. We drew a lot of praise from the Board (which was chaired by McNamara). As a result, I came to be known as a fairly vigorous and innovative division chief. It gave me a lot of exposure, but it was my work on the steel sector in Brazil that propelled me into the forefront.

The Bank had financed a study of the steel sector in Brazil sometime in the '60s, which basically showed that Brazil could become a very cheap producer of steel, that its steel requirements were very large, and that the Bank should finance it. However, in the days of George Woods, it was decided not to finance steel in Brazil: (a) because it was in the public sector and, at that time, the Bank's policy was not to finance industry in the public sector; and (b) because of the concern that there would be protests from industrial countries and the Eximbank [Export-Import Bank] in the United States. The Eximbank opposed this initiative because it viewed itself as the traditional financier of steel projects in Brazil.

Around 1970, I went to Brazil and had a very detailed look at the steel sector's financing needs, met the Finance Minister, and basically chalked out a financing plan for the steel sector with funds coming from the World Bank, the Inter-American Development Bank, and the export credit agencies. I then briefed the Finance Minister fully so that, when he met McNamara in Copenhagen at the World Bank's Annual Meeting, he could follow the same approach as I did. When I returned from Brazil, I wrote a very short memorandum to my Director setting out the whole steel issue in Brazil and the proposed financing program. At the end, I wrote a sentence outlining two options: a) follow the path that we did before, and let Brazil flounder; or b) accept that there would be steel in the public sector and help Brazil in choosing an economical way to do it, bring other lenders into it, and do the coordination job.

My Director sent the memo off to McNamara, and we were all summoned to a meeting in his office. Alter, who was our Director, was there; Burke Knapp, the Senior Vice President was there; and I was there. This was 1970. McNamara asked me to present this thing and I presented it. Burke Knapp differed with it, and I presented my point of view. At the end of the meeting

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McNamara said, “I agree with Husain. Let's go ahead.” That was fascinating because, in this Bank, it was not normal for the President to overrule his Senior vice President and agree with a relatively junior division chief.

Q: You felt comfortable rather quickly with McNamara, then?

HUSAIN: Very comfortable.

Q: Because you wouldn't have done that if you hadn't felt comfortable.

HUSAIN: No. Before that, there had been an incident which was interesting also. We had made an agricultural loan to Brazil which had a very complex and unworkable indexing formula for interest rates. The Finance Minister wrote to McNamara protesting this indexing formula, saying that it was unworkable. One evening, McNamara was looking for my Director, and he was not there, neither was the Division Chief, so I got a call from McNamara's assistant saying that he wanted see me.

McNamara showed me a letter from the Finance Minister. He asked me what I thought of it. I told him that I thought the Finance Minister was right. Since I was going to Brazil the next day, McNamara authorized me to accept the Finance Minister's suggestion. I then wrote a note to Alter saying that McNamara called me to his office and that he had authorized me to accept the Finance Minister's suggestion. I left this note on his desk and went off to Brazil.

Q: Did you feel like you were crawling out on a limb when you did that?

HUSAIN: No. I didn't ask to see McNamara.

Q: In some organizations it's very dangerous to do that.

HUSAIN: Yes. Yes. But it was still a relatively small organization at that time. The big explosion in the World Bank had not taken place yet. It was an intimate organization, a little clubby. If you got into the good graces of the President it was known all over the place pretty fast.

Q: So you went off and made that arrangement?

HUSAIN: Right. That built up my stock in Brazil. That built up my stock in the Bank. I developed a lot of confidence with the Board; I could speak with authority. I built up, probably at that moment, the Bank's largest lending program. The Brazil program reached four billion dollars, $400 million a year, which was huge in those days. It was very diverse. We financed projects in transportation, agriculture, iron ore mining, everything.

Q: One of the major initiatives of the Woods years was the shift into agriculture. Could you tell us a bit about where that fit in the Brazilian plans?

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**HUSAIN:** Let me talk about the Bank's project concepts in those days and the way agriculture would fit into it. The Bank's project concept was fundamentally an engineering concept, which meant it concentrated on bricks and mortar, seasoned with generous amounts of financial analysis, economic analysis, and cost-benefit analysis. Organizational analyses concentrated primarily on infrastructure areas where you had independent authorities, such as electric power and transportation. However, there was not much understanding of organizational issues.

Most of the Bank's work in agriculture focused on plantation agriculture, livestock, and credit effects, until McNamara came. But working on plantation agriculture was an improvement over previous periods when the Bank's lending was almost entirely for construction or acquiring machinery. In the Woods years, the Bank moved toward financing land development, and establishing pastures. When I left Brazil in 1971, our agriculture lending was very small still. The bulk of our portfolio was electric power, transportation, and steel.

One innovation which McNamara brought was the financing of publicly-held development finance companies. Before that, the World Bank did not finance publicly-held development finance companies, only privately-held development finance companies. McNamara wanted us to look at a DFC's management. Was it effective? Was it efficient? Whether the DFC was publicly held or privately held didn't matter to him.

**Q:** Can you just give us some feel for the types of programs that you were able to implement in agriculture, in Brazil in particular?

**HUSAIN:** In my time, I think we had only two agricultural loans in Brazil. One was a livestock loan, and the second, I believe, was an agricultural credit loan. In retrospect, the livestock loan did not work because of the very complex indexing formula, which was later changed. I don't recollect what happened after I stopped working on Brazil. The agricultural credit loan I think went all right. It was a pure, straight agricultural credit. This was a very limited field at that moment.

**Q:** In the time that you were connected with Brazil you had made the transition to having a coordinated program for the nation as a whole.

**HUSAIN:** Yes. When I stopped working on Brazil in 1971, we had already prepared three country strategy papers where we took an economic view and a strategic view of the situation there. We were sort of beginning to diversify quite a bit. Initially, the Bank's portfolio in Brazil was about 70 to 80 percent electric power. We still had a fairly heavy element of electric power, but we also included transportation, agriculture, education, and mining projects.

**Q:** As you were finishing with Brazil, did you feel that you could have made good use of extensive additional financial resources?

**HUSAIN:** Frankly, I did not feel, at that time, that neither financial nor human resources were a limit to our doing things in Brazil. I was able to do everything I wanted to do. That applies to most of the McNamara period, actually.

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Q: So the constraint was...

HUSAIN: How fast the projects could be put together and the potential for project documentation, which means that we were already facing the problem which the Bank has faced ever since, that the Bank was more ready to lend than the countries were ready to borrow. We had more than enough money to lend, but the countries did not have the necessary ability to formulate and implement projects.

Q: Wasn't McNamara's ability to increase the Bank's financial resources one of his major contributions?

HUSAIN: He basically wanted to borrow more. He felt that the Bank was under-lending. It had the capital base to borrow more and therefore, to leverage its equity. He wanted to tap new markets, not only in the United States, but also European markets, particularly Switzerland. There was this accountant with green eyeshades who told him that he couldn't do it, and he fired him then and there because he knew more than he did. He knew that we could do it. So, this was one of McNamara's biggest contributions—the massive expansion of the Bank's financial base, and the Bank's capacity to mobilize finances for its operations.

Q: Now, you make a big change at this point. You became Deputy Director of East Africa. What was your perception of that position when it was offered to you? I mean, it was clear what they had you in line for already.

HUSAIN: Clearly, it was a significant job, but it was also in a department which had been mismanaged. The Director was a man called Michael Lejeune, and the Deputy Director was a man called John Williams. They were both old timers. John Williams, whose job I took, used to write beautiful English. When I went to see him, his desk was covered with 20 or 30 folders, beautifully arranged in a cascade, which his secretary used to rearrange every night and every morning. I asked people why he had all these folders, and they told me that John Williams was a perfectionist. Every time he received a piece of paper, whether it was correspondence or a report, he read it. More often than not, he had problems with the documents so he wanted to rewrite them. He put them away and worked on them, when he had time. Meanwhile, more documents were coming in, and he stacked them on his desk. Eventually, he rewrote them in fabulous English, but in the meantime things got bottled up and decisions were not taken. McNamara originally wanted John Williams to be in charge of Planning and Budgeting. When he first arrived at the Bank, McNamara asked Williams to write an essay on the future of the Bank. Williams wrote a long essay in beautiful English on the future of the Bank, and his thesis was that the Bank had already done everything it could have done. It was a mature organization that had reached its plateau.

Q: He misread his audience.

HUSAIN: Needless to say, John Williams' stint as the head of planning was very short, and, after that, he came to be Deputy Director on East Africa.
My boss, Mike Lejeune, was also an old timer. I think he was one of the people who came in right after the founding of the Bank. He was a very fine man, but not a great decision maker. I formed my first impression of him when I first arrived at East Africa. The Bank was negotiating a loan with Botswana for a mining project. On my first day, I walked into the office and three or four people were on different telephones, negotiating with some people in London and Johannesburg for a single mining project. This was being negotiated by a Director, a Deputy Director, the division chief, and the loan officer at the same time. It was unbelievable. Lejeune also had a problem with personnel decisions. When I arrived there were vacant jobs all over the place and I would go to Mike and tell him that we needed to nominate people for these positions. In most cases, I had narrowed the field down to 2 or 3 candidates and selected the one who I felt fit our needs best, but Mike couldn't act on it. He couldn't make a decision. He would tell me to leave the files with him, and three months later, he would select the same person that I selected. He was a poor decision maker. Nevertheless, he was always very good to me. He always had time for me and always spoke well of me.

A year after I became Deputy Director, Mike Lejeune told to me that there was going to be a big reorganization, and East Africa was to have a Vice Presidency. The reorganization came, and the Vice President was a man called Bernie Bell. The East Africa region was divided into three departments: a project department (projects were decentralized and became the responsibility of each regional Vice President) and two country program departments. I was to be in charge of one, and Mike Lejeune was to be in charge of the other. Lejeune was very disappointed. He had been led to believe that he was in line to be Vice President. As for me, I had all the Francophone countries and the southern part of Africa: Zambia, Rwanda, Burundi, Madagascar and so on.

Q: How did you bring yourself up to speed when you made that type of change?

HUSAIN: When I take a new job, the past doesn’t exist anymore. One philosophy I have is to take my costs up front. I take all the unpleasant decisions very fast, including firing and reorganizing people, so that the period of uncertainty is short. I want everybody to know who is in charge.

Q: You talked about sizing up the organization and figuring out how to get your own organization working more effectively. The next question is about sizing up the problems which existed. What did you see as the major problems facing your department? Clearly, this was an area that was going to demand a great deal of attention.

HUSAIN: Well, there were two or three problems: the manner of decision making, weak economic work, and poor quality personnel. I had to move out two division chiefs fairly quickly. I got a bad name for it, but, after a while, that was forgotten, and it became a very well-functioning department. It became efficient and the quality of the work increased dramatically. I have always found that once you focus on organizational and strategic issues, your own work becomes very simple. You don't have to work that hard when you move quickly to construct a mechanism to do things for you.

Q: Did you feel that you had your operation up and running correctly?

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HUSAIN: Within a year, it was very clear that my department was working much better than the department of my former boss.

One of the advantages I had was that I could attract very good young people. They wanted to come and work for me. They felt my department was where the action was. Things happened fast there. Talent was recognized there. I was able to collect very good people around me, and that has been helpful.

Q: As a result of the '72 reorganization, we had the impression that the role of the economist in the Bank had shifted.

HUSAIN: Yes.

Q: Could you tell us a bit about that? How did this affect your work in Africa?

HUSAIN: For the first time in the Bank's history a really outstanding economist, Hollis Chenery, was brought in as the Economic Advisor of the President. An entire economic apparatus developed around Chenery, and that gave very high visibility to economics. Secondly, it was very obvious that the President himself was involved in economic issues on a broad international scale. Thirdly, a lot of economists came up through the ranks. I was an economist Director, as was Gerry Alter, Roger Chaufournier, Peter Wright and many others. Fourthly, the country strategies that McNamara introduced relied heavily on economics.

Q: Now that your East African experience is some years in the past, could you reflect upon the strategies you used to approach development problems?

HUSAIN: I think that we did not have a sufficiently deep perception of African issues at that time. When you traveled across Africa and read the literature on Africa, you really were not aware of the impending population explosion. You certainly had no clue of what could happen in terms of environmental issues in Africa—the degradation of soil, and the diversification issue. You didn't expect that Africa as a continent would ever be short of food. You went into Sudan, you saw all this empty land, and (particularly after the oil price increase) everybody thought that Sudan would become the granary of North Africa and for the Middle East. You didn't fully understand the environmental implications of large scale, extensive cultivation in Sudan which have become very apparent recently. As a result, we approached Africa on a project-by-project basis.

After McNamara's '73 speech in Nairobi, we were all enamored by integrated rural development. We were told that the people were not there, and that the organization was not there, but we didn't see a problem. We saw all these ex-colonials who could bring a lot of wisdom on Africa, so we brought them in as agricultural technical assistants. We believed that if we brought in technical assistance and invented organizations, then, sooner or later, they would be integrated into the local body politic.

We didn't quite understand three things. First, that the colonials only knew about plantation agriculture. Their understanding of indigenous African agriculture was very poor. Secondly, we

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failed to recognize that African agriculture was not just a production issue; it was also a sociological issue. Thirdly, we didn't realize that the organizations we set up for integrated rural development had the seeds of their own destruction in them. They were viewed as alien by African governments, and therefore, they would never be integrated into the local framework. And lastly, these projects were viewed as projects, and not as parts of the overall economic framework. This meant that when we set up these projects, we did not focus sufficiently on the issues of trade, pricing, and marketing which ultimately had to merge with the project if the project were to work.

But this is wisdom after the fact. At that moment, it was a "can do" approach. I remember that I went to Tanzania once and they were having a maize shortage there: looking to help, I proposed a maize development project for Tanzania, which would distribute fertilizer, seed and so on. We didn't ask whether this form of socialized agriculture could lead to any meaningful increase in production. A great deal of our experience was with very small crop projects. On a small scale these had worked, but on a larger scale you faced the institutional issue, the issue of incentives and organization, in a much more significant way. We didn't realize this, and that was our failure.

Q: I'm very interested in the kind of signals that people get. When things are going well, you get positive signals from the field, and when you are having trouble, you get negative signals. Sometimes you don't get signals at all. In this time period, did you feel that you were getting the kind of information you wanted?

HUSAIN: My stint on Africa was short. I was Deputy Director for a year, Director for two years, and Vice President for slightly more than a year and a half. I wasn't around long enough to get the sort of signals that you are talking about.

Q: This was a terrific interview. We would like to schedule another one if you have the time.

HUSAIN: Yeah, because there's a lot more to say.

Q: There's much more. There's much more to cover. It's very important.

[End Session 1]
Q: I'm Lou Galambos with the Business History Group and Johns Hopkins University.

Q: I'm Bill Becker with Business History Group and the George Washington University.

Q: I am David Milobsky, the assistant to the historian.

Q: I'm Jochen Kraske, the Bank's Historian.

HUSAIN: And I'm Shahid Husain, Vice President of The World Bank.

Q: Last time, we talked a good bit about Africa and your experiences there with agriculture and all of its associated problems. I had just one follow-up question before we move on past Africa. You were there during the reorganization of '72, which changed the geographical alignments and created new geographical units. Is there anything you could tell us about how that worked, or how that changed things? How did that change operations?

HUSAIN: Well, that was both a realignment and an integration of responsibility as well as an expansion. Initially, McNamara divided Africa into two parts—Eastern Africa and Western Africa. That happened before 1972. In 1972, Regional Vice Presidencies were established, one for Eastern Africa, one for Western Africa, one for Latin America and the Caribbean, one for the Middle East and North Africa and Europe, and one for Asia. In addition, a substantial proportion of the projects staff was moved from the Central Projects Department to the regional vice presidencies. Within the regional vice presidencies, you had country operations departments and projects departments. This meant that regional management had better control of the resources available to the program than before. However, very rigid central controls were instituted simultaneously, which meant that everything in the project had to be reviewed by the then-senior vice president, Burke Knapp; by Warren Baum, who was installed as the Vice President of Central Projects and, within his vice presidency, by the various project departments which still had the nucleus staff in those areas. In fact, the screening of projects became much more detailed, which meant that projects were screened at the stage of inception, the "yellow cover" level (the first stage after a project had been appraised), and the "green cover" level (when the final authorizations for negotiations were given). In other words, a multiple layered review process was established. McNamara had a direct dialogue with Warren Baum on various issues of policy and the quality of the Bank's work.

Q: In businesses that implement this form of decentralization, the idea is to push the authority to make operational decisions down to a lower level. However, what you've described suggests to me that, while at the regional level the Vice President had greater resources, control was actually tightened, or centralized.

HUSAIN: McNamara believed in delegating authority but he was not very comfortable with it. Therefore, every time he would delegate, he would simultaneously institute very strong controls,

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which would frustrate the whole purpose of the delegation. That's exactly what happened after the reorganization. The only thing that the vice presidents really did was work on country strategy. They would review the project programs, but on issues of quality, there was total centralization.

Q: Would it be correct to say that the process of change and innovation originated from the top?

HUSAIN: In McNamara's Bank, that was always the way. McNamara was the "Supreme Thinker" and the "Supreme Decision Maker". Almost every initiative on policy started as the result of a very close discussion between him and one or two other people. For example, his first big initiative on rural development was the result of discussions between him, Hollis Chenery, and possibly Warren Baum. I think that the work on poverty and the accent on poverty was the result of initial discussions between him and Hollis Chenery. His major concern with the impact of oil prices and the Bank's response stemmed from discussions between him and Ernie Stem.

Major policy initiatives started as very close discussions between him and one or two advisors, then work would be done either in the Central Economics staff or in the Central Projects staff, which would be very closely supervised and directed by McNamara himself. He would go over these reports with a fine tooth comb. At that time, they would be discussed with a broader audience (basically the Vice Presidents), and become the Bank policy.

Q: When you had ideas about what should be done that was new, did you push those ideas up? How did you do that?

HUSAIN: Well, McNamara used to travel a lot (we traveled together quite a bit in Africa), and that was the time when you really discussed those ideas with him. That was the time when he was most stimulated, but basically, the Regional Vice Presidents were takers as far as policies were concerned, although we did have some input on the finer points of the policies toward individual countries. It wasn't a bad situation because we were all extremely enthused by what was happening, and basically got on the bandwagon. There was very little questioning, at that time, about these initiatives. There was no experience with issues like rural development. In concept, they appeared to be fantastic ideas, and I think the organization as a whole fully agreed that the Bank was under-lending. It was not doing what could be done. We were fully on board on issues of fighting poverty, rural development, and urban development, so there was no questioning at that time.

Looking back, I feel that, in many of these questions, we did not ask enough questions about the management aspect of things; about the institutional aspect of things; about the ownership of these issues. We were all evangelists. We were so in favor of the substantive objective, that we thought that with sufficient commitment, resources, and enthusiasm, it could be done. If there was not enough local manpower, we could import it. In Africa, we brought back a lot of former colonial civil servants precisely for that purpose. Time proved that that was not the way to go. The organizations that were created were not a part of the local institutional scene. Clearly, there was no ownership on the part of the local administrations and communities, and that led to failure.

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Q: Meanwhile, the increased volume was keeping you running very fast.

HUSAIN: The expansion of the budget was so fast in those days that you really never felt the resource pinch. Whatever you wanted, you got it, especially if McNamara thought that you were a good manager. I got every penny that I needed. I could always go and see him and get the resources I needed.

Q: After Africa, there was a brief period when you returned to Pakistan. Would you like to talk a bit about that choice, and the experience?

HUSAIN: Well, I got a call one day from [Zulfikar Ali] Bhutto's office and they said that the Prime Minister wanted to see me. I went to see McNamara, and he told me to go and see Bhutto. So I went to see Bhutto in Islamabad, and he offered me a job as his Special Assistant for Economic Affairs. I asked him about his own vision of the Pakistani economy, and he talked about poverty, education, infrastructure--everything. I came back and thought about the offer, but I eventually told Bhutto that I couldn't come. Nevertheless, he kept pressing me and, in the end, I said that I would come for a year.

I got an office next to his office, and I got a lot of work going on various issues. However, two months later, he talked of having elections, and very soon all the offices around him were taken over by people from the secret police, so I was moved from the Prime Minister's house to the Planning Commission. I still had my title; I still worked with the Cabinet, but some other people, particularly the Secretary General of Finance, were working on some economic issues with him. That was kept from me. I did various things, and it was a period of great education.

Once I was in Karachi and I heard some vague rumors that work was being done on the nationalization of agricultural industries, so I called the Secretary General of Finance. I said, "Look, this is the rumor. Is that correct?" He said, "No, absolutely not. There is nothing to it." One day, in August 1976, I was called to a Cabinet meeting. I got there, and there was a piece of paper in front of all the members which announced the nationalization of all the cotton-ginning mills, the flour mills, and the rice mills--anything that had to do with the processing of agricultural commodities. The Prime Minister had gone to a television station to record his announcement. I was very agitated. A friend of mine, the Minister of Production, took me aside and he said, "Look, this is all done. There is nothing you can do, so my suggestion to you is that you don't show your agitation in the Cabinet meeting." The Prime Minister came, and he went around the table, and everybody said what a great revolutionary step the nationalization was. Finally, he came to me, and I asked him how he planned to manage the 3,000 units he was nationalizing. Bhutto turned to the Secretary General of Finance, who said that district officials would manage them. That was the essence of the management plan.

When the meeting ended, I went to Bhutto's office. I said, "Look, you have just taken one of the most important economic steps of your government. You pay me a hell of a lot. No public servant in Pakistan has ever been paid so much. You didn't even consult me, so obviously you have no confidence in me. I want to leave." Political considerations prevented me from leaving right away, so I stayed on the four more months. It was a period of great political education. In January, I left. The rest you know. Soon there were elections. He lost the elections, and the thing

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that contributed most to his loss of the elections was the nationalization of agricultural industries, because it inflamed entire rural areas. Every farmer had to sell his rice, wheat or cotton to a government organization. Bhutto had regarded this nationalization as a way to control all the landowners. Ultimately, it blew up in his face, and led to his hanging.

After leaving Pakistan, I returned to the Bank and took over East Asia. In those days, China was not represented in the Bank. It was a member of the Bank until 1971.

Q: Were there any discussions that led up to that decision to go to East Asia?

HUSAIN: Before I went to Pakistan, McNamara told me that I would come back to a high vice presidency. He hinted that it could be Finance. When I returned, however, Finance was not vacant. Peter Cargill was in charge of Finance. When I was in Pakistan, I was informed that I would come back to take East Asia.

Perhaps I should mention two or three important episodes during my work on East Asia. First was Indonesia. When I came in, Peter Cargill, who was Vice President for Finance at that time, said, "Shahid, your job is to save the Bank from McNamara, who is wasting all this money on Indonesia." There was also a series of articles in the Wall Street Journal about how the World Bank under McNamara was throwing its money away in Indonesia. McNamara, sensitive to criticism, was extremely agitated. He called a meeting and said that we had to write a white paper on the World Bank's work on Indonesia. I was given the job, and I was to produce it in one week. So I gathered a team, and we wrote a first-rate white paper on the World Bank's work in Indonesia. McNamara was absolutely amazed that we could do such a good job in one week.

My view was that the World Bank really had done a phenomenal job in Indonesia. I think it was one of the golden chapters in the World Bank's history, frankly. Here was an economy in total shambles after Sukarno left, and the World Bank essentially became a partner in the reconstruction and development of that country. We did something there which we had never done. We established an office in Jakarta and sent them a person at the level of a director, Bernard Bell, who had worked on Indonesia before. We put an outstanding staff there with him. A number of today's vice presidents were on that staff. We gave them authority in the field, and it worked beautifully. They literally became day-to-day advisors to the government. The World Bank had a major role in Indonesia's recent economic triumphs.

One of the black spots in Indonesia, however, was the trans-migration program. The idea was to move people from the overcrowded island of Java to the under-populated islands of Sumatra and Sulawesi. It seemed so simple, and so obvious. We established a special trans-migration division in my vice presidency which worked with the government on trans-migration projects.

The government set up a trans-migration office and the head of the highway department was put in charge of it. This guy knew his bulldozers. He went in to Sumatra and Sulawesi and bulldozed huge tracts of land. Large amount of primary forest were destroyed. In its place, a grass called alangalan came up which made the land totally unusable. The organic material was very thin, and underneath there was only gravel. It was a failure, but remember that we didn't benefit from the subsequent advances in the environmental sciences. Nevertheless, I believe that the Bank's

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experience in Indonesia highlights the costs of focusing on particular concerns without looking at the broader issues.

Q: I want to ask you one question before we move from Indonesia. Some of the articles and interviews that I've read indicate that you feel that Indonesia actually had a major impact on your own thinking about development. You mentioned a holistic approach to policy. One interview that I found fascinating was where you compared what you had learned in Nigeria to what you had learned in Indonesia.

HUSAIN: My view is that Indonesia is the most successful petroleum producing country. If you look at petroleum producing countries, particularly the poor ones like Nigeria, Mexico and Venezuela, you see that, when the price of petroleum increased in these countries, there was a lot of clamoring for the resulting rent. In addition, there was a massive destruction of prices and policies—overvalued exchange rates, subsidized credits, etc. Most of this money went to privileged groups via credits and protection. If you take Nigeria, Venezuela and Mexico, and look at what happened to economic growth and development in the '70s and '80s, then you would find that all the improvement in living standards came from the improvement in terms of trade, not from the growth of production. If you translated production (inputs and outputs) and valued them at international prices, then, in all these countries, you would find a tremendous negative value-added phenomenon.

Essentially, what this means is that all the oil money was basically redistributed. It did not add to the capacity of the economy to provide jobs. Although there was some investment, they were uneconomic investments in most cases. In Indonesia, on the other hand, a huge part of the windfall profits were invested in the rural areas. Among developing countries, Indonesia had one of the lowest rates of migration from the rural to the urban areas. Secondly, they invested massively in things like education and health and so on. Thirdly, they never allowed their exchange rate to become overvalued. As a result, the non-petroleum economy was not destroyed. On the contrary, it thrived. It had its crisis early, when, Pertamina, the petroleum producing monopoly of the government, misused a lot of money, but, since then, it has been one of the best managed economies in the developing world.

The World Bank had a lot to do with Indonesia's success. First of all, a lot of our projects were in the agriculture sector. Then, in my time, we started our work on education and infrastructure in a substantial way. Furthermore, the World Bank was very instrumental in forcing Indonesia to practice good budgetary management techniques, thus preventing massive commercial borrowing like we saw in other OPEC [Organization of Petroleum Exporting Countries] countries. The Bank also helped Indonesia maintain a sensible exchange rate.

Q: You mentioned earlier a consensus about McNamara's ideas and his vision. Now we are at the late '70s. Has anything changed in that regard? Is that still as powerful as it was?

HUSAIN: Yes, there is still tremendous faith in his leadership. McNamara retained his intellectual authority in this institution until the end.

Q: Now, you were going to talk about Vietnam.

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HUSAIN: I think the best thing I can do is to read the note I dictated, I think it was in 1979.

“This note records the chronology of events on Vietnam. This is a private note, but I am writing it so that it will be available at a future date for an objective evaluation of the Bank's decisions on Vietnam.

“In February 1977, when I assumed the responsibility for Vice President of East Asia and the Pacific, Vietnam was the talk of the town. The [Jimmy] Carter Administration wanted to normalize relations with Vietnam. Some State Department officials had either just been to Vietnam, or were about to go to Vietnam. Earlier, during the 1976 Annual Meeting of the Bank in Manila, the Vietnamese had taken their seat in the Bank's Board of Governors. They had met Bernie Bell, who was the Vice President for East Asia, requested Bank assistance, and invited an economic mission. An economic mission went to Vietnam in January-February, and Greg [Gregory B.] Votaw was leaving for Hanoi to join the mission's final discussions with the government. On the way back, Votaw held a press conference in Tokyo giving his impressions about Vietnam. He said that the Vietnamese government was committed to reconstruction and economic development. McNamara read the account of this press conference and was visibly angered. During the same period, Bernie Bell told me that the only discussion on Vietnam he had had with McNamara had been very unsatisfactory. McNamara had been emotional and totally irrational. Bell said that he and Knapp had decided to insulate McNamara from Vietnam issues.

“The economic mission came back and wrote its report. In the meantime, we started work on projects. The first and the most advanced one was an irrigation project in the south. Knapp kept asking me about the progress of our work, and kept suggesting that we should go slow. He also set a ceiling of $40-$50 million for this first loan to Vietnam, regardless of the foreign exchange component of the project.

“The irrigation project was appraised in January 1978. In April or May '78, Knapp held meetings on the country allocation of Bank and IDA [International Development Association] funds. According to the population and country norms, Vietnam should have been allocated at least $400 million of IDA Five. At the very beginning of the meeting, Knapp said that he had reviewed the allocation with McNamara and that McNamara had raised the issue in respect of only two countries—that's Indonesia and Vietnam.

“On Vietnam, he wanted a ceiling of $150 million. That pre-empted further discussion of Vietnam's allocation. A year later, during a similar meeting I understand he raised the allocation for Vietnam to $200 million.

“In April of '78 I went to see McNamara. I told him that work on the irrigation project was proceeding well, and that I expected to submit a loan proposal to the Loan Committee shortly. I told him that we would make a decision entirely on economic issues, and that it was my judgment that on economic grounds we should go ahead and lend to Vietnam. McNamara agreed that I should submit my proposal to the Loan Committee. The project went to the Loan Committee in July of '78.

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"A special Loan Committee meeting was called. Knapp began by saying that a special scrutiny of loan proposals to Vietnam was needed since we had not lent before to that country. I said that while every project should be scrutinized, we had a responsibility to be objective, and that the rules applying to Vietnam should be no less or no more favorable than those applying to other countries. There was a long discussion on the issues of economic management and project implementation. Knapp reserved decision.

"A couple of days later, after talking to McNamara, he called me to say that we should go ahead with negotiations, but only for a $50 million loan. The external financing requirement was $90 million. Earlier in a meeting with McNamara and Knapp, I had insisted that the issue be reopened with the Japanese. Since I was going to Tokyo with McNamara, he suggested that I should take it up with the Japanese and should alert our representative in Japan so that he could inform the Japanese authorities. There was a tremendous storm in Tokyo about the prospect of McNamara asking the Japanese to co-finance a Vietnam project."

(I did not accompany McNamara. And I'll talk about that later.)

"Knapp and McNamara ultimately agreed to increase the IDA credit to $60 million. Throughout the discussions, Knapp remained adamant that IDA should not finance this to the tune of the full foreign exchange component of the project. I asked him whether the Bank had treated Romania the same way during the early stages of our relationship with that country. Knapp said, "No," but did not explain why, and he did not say what the difference was between Rumania and Vietnam.

"Since then, we have worked on a pipeline of projects on Vietnam and three projects—agricultural rehabilitation, industrial rehabilitation, and coal mining would have been ready for our Board presentation in the second quarter of 1980. The Vietnamese had been forthcoming in their preparation of projects. There had been problems in obtaining information, but no worse than one would have expected in a country where our relations were relatively new, where the quality of information was poor, and where communications would be inherently difficult. However, every single mission that came back from Vietnam came back with the conclusion that the implementation of projects in Vietnam was highly advisable.

"In the meetings I had with the Vietnamese delegation during the Annual Meetings of the World Bank and the Asian Development Bank, the Vietnamese consistently conveyed the impression that they attached great importance to the relationship between the Bank and Vietnam. The Cambodian affair, the attack by China, and the massive flow of refugees created a new environment, an environment of tremendous hostility towards Vietnam, raising the specter of the resurgence of Vietnamese military activities. I was concerned about the erosion of support for our operations in Vietnam. However, I also believed that discussions and decisions on Vietnam should be conducted in an environment of rationality and on economic grounds. I decided that a high-level mission should go to Vietnam, basically to bring back judgment on four important questions, namely: (1) the quality of the commitment of the Vietnamese government to economic development, (2) domestic resource mobilization, (3) the possibility of a meaningful dialogue between the Bank and Vietnam on economic and central issues, and (4) project implementation and prospects of effective supervision by the Bank. Parvez Hasan, my chief economist, led the mission. Nick [Nicholas A.] Gibbs and Ed [Edwin R.] Lim, accompanied him.

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“During McNamara’s visit to Thailand in May 1979, there were constant news stories about the flow of refugees from Laos and Cambodia. One morning, we opened the newspaper and read that 30,000 refugees had come across from Cambodia to Thailand. The Prime Minister of Thailand was visibly distressed. During various conversations, the Prime Minister of Thailand mentioned the economic strains on Thailand because of the flow of refugees and the threat to Thailand’s security. McNamara was clearly very interested. He never explicitly discussed the situation with me, but I told him that, despite the deteriorating environment, I was keen to keep our deliberations on a well-defined path geared to economic issues. I told him that we were sending a mission to Vietnam and I mentioned to him the issues posed to it. He expressed his full agreement. On my return, I also briefed Ernie Stern about my intentions and he was also in agreement. The mission went.

“In the meantime, I received some cryptic calls from Stern, and he mentioned that Fred Bergsten had told some committee in the Congress that IDA lending to Vietnam at present would be contrary to IDA policies. A question was asked at one of the Board meetings, and when I looked at the transcript of that meeting, Stern’s answer was essentially that we had sent a mission and we were waiting for a finding.

“The mission returned and prepared its report. Hasan’s conclusion was that although the economic conditions in Vietnam were bad and the economic management left much to be desired, there was no case for suspending our meager lending to Vietnam. I discussed this with Ernie Stern, and I told him that I agreed with Parvez Hasan’s recommendation. However, I also said that the environment at present was very poor and that, after discussions with the Executive Directors, it was my judgment that, if a project came to the Board at this time, a substantial number of votes would be cast against it. The Executive Directors of the United States and Britain were under specific instructions to cast their votes against a loan to Vietnam and there was a possibility that the Canadian, Australian, and German Executive Directors would join them. I suggested to Stern that I would withhold submitting projects to the Loan Committee until the environment improved, and then we should process projects one by one. He agreed.

“On August 30, when I opened the press clippings I read McNamara’s statement in Newsweek and was surprised. McNamara had not talked to me and I was surprised that he had made a categorical statement in Newsweek that he would not be lending to Vietnam. Parvez Hasan was visibly disappointed. He had been sent to Vietnam, assigned to the task of evaluating the country, and yet, the President of the Bank had made up his mind even before he left. This was also the reaction of other staff.

“I called Stern who told me that McNamara had not consulted him. I called Alun Morris, the press man. He said that the verbatim record of the interview came when McNamara had gone to the hospital—he became sick in the meantime, and, in fact, Stern had cleared the whole thing. Deciding that my own views had to be considered, I sent a very, very stern memorandum to McNamara on September 10. I saw McNamara on September 10 in the presence of Stern and [Caiio] Koch-Weser and we had a very acrimonious meeting. McNamara said that, although he had not consulted me, he had been kept fully briefed by Ernie Stern. He also said that an earlier letter from [William P.] Dixon, the Alternate U.S. E.D., to a congressional committee saying that

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lending to Vietnam would be contrary to IDA policy had been cleared by him and Stern. I was not informed of it. I was not consulted, and never saw the letter.

“McNamara accused me of implying that he was dishonest and that he was making decisions on a political basis. He said that, in any case, he had said nothing in Newsweek which was different from what I was suggesting. I said that his remarks to the Newsweek implied that there were substantive grounds to stop lending to Vietnam. My contention was that, on substantive grounds, there was no basis for stopping lending to Vietnam, and we should wait until we got sufficient support for it in the Bank’s Board. I also objected vehemently to McNamara’s making a statement without consulting me. He asked me to tell the staff that his decision was not political. I agreed to do so.

“As I walked out of McNamara’s room, Stern told me that McNamara had not consulted him. Later Koch-Weser said that McNamara had consulted Stern before the interview.”

Q: When McNamara took his initial negative position toward Vietnam early on, how frank were the discussions of the political issues?

HUSAIN: There was never a discussion. In fact, in this interview, McNamara threatened to fire me. There was never a frank, open discussion between McNamara and any of us on the whole affair. Whenever McNamara was confronted with the issue of Vietnam, it was an emotional affair and not a cool, rational discussion.

Q: How did he show emotion?

HUSAIN: When we were traveling together in Thailand, he would show displeasure by contorting his face.

In that same trip in Thailand, when McNamara and I were driving through Bangkok, I asked him who was the ablest man he had ever met. He said John Kennedy. In his view, John Kennedy thought about more issues than any man he ever met. So I said, “In that case, why did he get involved in Vietnam?” McNamara responded by saying that Vietnam was a mistake, and that he knew for a fact that John Kennedy had decided to withdraw from Vietnam. That was the end of it. He wouldn't talk beyond that.

Q: So he retreated into himself when he was mad. The common belief is that somehow he was concerned about expiating his sins. You would expect him to lean over backwards to try to help the Vietnamese to repair some of the damage that was done to them.

HUSAIN: My view is that he had a very low view of Diem, Ngo Dinh Diem, but I think that he still considered the North Vietnamese the guilty party, the people who upset the balance. In his view, they did things which led to massive violence. I don't think that he was capable of sitting back and making rational judgments on Vietnam.

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Remember also that, for McNamara, obtaining IDA money was an absolute priority. He would do almost anything for the IDA money. His judgment was that the U.S. Congress would not appropriate money for IDA if the Bank lent for Vietnam. On this issue, he wrote this letter to Clarence Long, which said that given the Vietnamese policies, he was not satisfied that external funds would be used for economic development and hence IDA was not planning to lend to Vietnam.

After I heard about the letter, I asked Ernie Stern if it was usual, for the President of the Bank to write directly to a Congressman. Stern replied that this is a special case. The story was that Fred Bergsten, the Assistant Secretary of the Treasury, and Bernie Bell cooked up this letter, and McNamara, who was coming in from somewhere, signed it at the airport.

Now, at that time, the man in charge of Finance and IDA negotiations was Moeen Qureshi. He was never consulted; he was never involved in this; and he was mad as hell. The Board was also mad as hell and strongly reprimanded McNamara on this issue.

**Q:** At the level below McNamara, with Stern for instance, did you discuss the political dimensions explicitly and openly?

**HUSAIN:** Yes. I did, but my view is that Ernie never clearly disclosed to me his discussions with McNamara, and he never fully informed me about his discussions with Bergsten. Basically, different people were operating in different water-tight compartments here.

**Q:** So, at your level, could you discuss this matter with others in the Bank? This seems to be something of a defining issue in terms of the U.S.'s role in the Bank, and the Bank's international economic orientation.

**HUSAIN:** My point is that I could not, with any conviction, tell my own staff what the story was because I was not a part of it. Basically, the Vietnam matter was handled between McNamara and Ernie Stern. The rest of the Bank heard about it through secondary sources. The Vice President in charge of work on Vietnam was not a part of many of these decisions. It was a very, very uncomfortable feeling. If you like, I can read into the record my memo to McNamara on this issue.

**Q:** Yes. Please.

**HUSAIN:** This memo is dated August 31, 1979.

"To Robert McNamara, through Ernest Stern.

"I read with dismay your statement on Vietnam published in *Newsweek* magazine of August 27. You were quoted as having said that under current conditions, it would not be possible to invest funds there with the high probability that investment objectives would be realized, or with assurance that the project would benefit the masses of the people. There was also an implied parallel with the Vietnam of today and Uganda under [Idi] Amin.

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"My dismay is for several reasons. As Regional Vice President, I would have expected to be consulted before you took a formal public position on a country in regard to which you have assigned to me the responsibility for economic evaluation, project formulation, appraisal and supervision, and general relationship.

"In the environment of distrust between staff and management which has prevailed for some time, many staff members have said that on key issues of policy, Senior Management takes preemptive decisions which render subsequent discussions meaningless. In my discussions with the staff on various issues, I have always maintained my identity with the so-called Senior Management and shared the responsibility for decisions. Now, I would not want to be a victim of the cynicism that pervades this institution.

"Vietnam is an issue where staff members have strong views. My attempt throughout has been that issues on Vietnam should be discussed in a cool and rational environment, and that the staff should be carried along. You will remember that when we were traveling together in Thailand, I had mentioned to you that I was making an effort at the systematic and objective evaluation of the economic issues on Vietnam and that, for this purpose, I was sending a high-level mission to the country. At that time, you had concurred in this procedure. Ernie Stern has been consulted and kept fully briefed at every stage. Had you asked me, I would have briefed you on the mission's discussions and findings. As it is now, my staff are asking me whether the whole exercise was a mere formality while the Bank's President had already made up his mind.

"On the substantive issues, you may wish to peruse the attached report of my chief economist, Parvez Hasan, who led the mission to Vietnam. While there is no doubt that the development effort in Vietnam is lagging and there is massive poverty and starvation, the cause of that is complex and can be traced to the decades of war and destruction as well as to recent events. Despite that, it was the judgment of the mission led by Hasan that Vietnam's performance in economic development cannot be rated lower than that of some of our current IDA borrowers such as Bangladesh and Pakistan. I would add Tanzania to the list.

"As regards the capacity of the Vietnamese to implement projects and to pursue their objectives, the experience with the project we have financed has been better than with those in some other countries of the region. Recently, the U.N. Development representative told me that he had a similar experience. Our later supervision mission had indicated that although there was an initial lag because the Vietnamese were unfamiliar with Bank procedures, work is proceeding and nearly 50 percent of the funds have been committed. There is every indication that the Vietnamese are now giving high priority to food production. Hunger is the prime issue.

"I know that in the wake of the massive flow of refugees, Vietnam has faced an adverse public opinion press, and it would have been totally inappropriate for us to take a project to the Board under these circumstances. On the other hand, the Vietnamese are extremely keen to maintain and build their relationship with us. There are reasonable prospects that, in due course, we should be able to build a meaningful dialogue on economic and management issues. So, while being responsive to the environment, we should try to keep our channels open to the Vietnamese.

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"In these circumstances, my position, which I have discussed with Ernest Stern, has been to avoid taking a formal position. My plan was that, as the environment improved, we should process individual projects on Vietnam, at every stage consulting Executive Directors individually before we proceed. The first project to be ready will be for agricultural rehabilitation, something which would address directly the question of hunger and poverty in Vietnam.

"Finally, a word about what we say to the press in the future. It would be helpful if we agree on the language. My personal view is that we should limit comments to saying that we are not ready to make a new commitment, without indicating the future course.

Q: And the reply to this?

HUSAIN: He called me to this meeting, which I have talked about earlier, and it was very emotional. At that meeting, he threatened to fire me, and I said, "Fine." And at the end of the meeting, he said, "Let's forget all about it."

Q: Did that meeting have any long-term impact on your relationship with him?

HUSAIN: If it did, it didn't show. We worked very well together on China, and I've been seeing him since.

Q: This was the first time you had challenged his authority directly?

HUSAIN: Yes. The only time.

Q: The only time?

HUSAIN: The only time.

Q: All right. Let's go on to China, then. Will you tell us a bit about the development of the China policy?

HUSAIN: In 1978, I called the Pakistan Foreign Office and asked them to arrange a private trip for my wife and I to China. We traveled around China for three weeks.

Q: Had you been to China before?

HUSAIN: Never. And when I came back, McNamara was very interested to hear about China. The country fascinated him.

Q: Did you go with the intent of arousing interest?

HUSAIN: No.

Q: No political objective?

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HUSAIN: No political objective. A number of people, including Kim [Edward V.K.] Jaycox, went to China later on and that was well publicized. That was a private visit, also. And then, the Chinese started sending us messages through all sorts of people. They wanted to come back into the World Bank. McNamara's answer to them was that the Bank door was open, but the only person he would talk to was an official representative of China (i.e., the Ambassador). So, shortly thereafter, the Ambassador of China came to see the IMF [International Monetary Fund] and the Bank. I think they met McNamara and proposed that China should take China's seat in the Bank. The Fund sent a mission under a gentleman called Tun Tin, and they negotiated China's re-entry into the IMF. Here in the Bank, a small group was set up with me, Moeen Qureshi, and the Bank's General Counsel, to look at the implications of China's entry; what would happen to Taiwan's borrowings from the Bank, and so on. McNamara personally took charge of the entire affair. He sent Burke Knapp to Taiwan to basically tell the Taiwanese not to raise any fuss about it and that they would remain responsible for their borrowings from the Bank.

The Carter Administration was ambivalent, yet McNamara was moving very fast. McNamara knew that if he went to the Board or anything like that, his efforts would be delayed. When Tun Tin returned, he called him in, received a full briefing and got himself invited to China. Soon thereafter, we all got into the plane and went to China. There, we negotiated China's re-entry into the Bank. I had never seen McNamara so excited. We had a long meeting with Deng Xiao Ping. We heard his views on Russia, and the rest of the world. McNamara was absolutely fascinated. He personally negotiated China's entry into the Bank.

Shortly after our trip, in the summer of 1980, I took my directors and division chiefs on an operational mission to China, and we negotiated the World Bank's future program there. I insisted that the first project would have to be an education project, a project for expansion of teaching of science in a number of Chinese universities. From that point forward, China took off.

Q: What led you to make that decision?

HUSAIN: My own bias was that development has to start with human resources and people. I also thought that in political terms, it would be very good if the first loan to China were an education project. When the Chinese came here, McNamara personally shepherded them along to meetings with the Board. He would later say that if he had not done it that way, it would have been delayed in the Carter Administration, and then when [Ronald W.] Reagan came, China would never be able to come into the Bank. He was absolutely right. This is McNamara, the politician, who recognized that the Democrats might not come back to the White House. If the Republicans came back, then China's entry into the World Bank would be delayed indefinitely.

I presided over our work on China for two and a half years. That was the formative stage. What impressed me was how quickly our dialogue developed with China. In all my career in the Bank, there are two countries where projects have gone like clockwork. One was Korea, the second was China. What was fascinating about China was that you came to an agreement with the Chinese on what would be done, and a year later, it was done. They kept all of their promises.

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We dealt with a phenomenally disciplined government, with very effective communications, but we also dealt with a government where the project concept was not alien. It was very much a part of their own organizational ethos. As a result, they absorbed project issues quickly, and soon did better than our seasoned borrowers.

The Chinese also quickly recognized the benefits of association with the World Bank in terms of bringing in new technology and new practices. For example, they immediately saw the benefits and merits of international competitive bidding in reducing their costs, and the benefits of joint ventures with foreign contracting firms. I was fascinated by the speed with which the Chinese adopted these procedures and practices.

Q: You mentioned Korea. Were there any particular issues there that you feel we should know about?

HUSAIN: Around 1981 or 1982, there was a big debate between the Koreans and the World Bank about the future of the automobile industry in Korea. We were advising Korea that they should not expand their auto industry because the world market was already saturated. They didn't listen to us. They went ahead and expanded their automobile industry with great success, and they are a major exporter of automobiles now.

Similarly, the Bank brought the semiconductor technology into Korea. We made a loan to the Korean Institute of Electronic Technology, which financed semiconductor research in collaboration with private industry. This program also helped to introduce technological improvements into private industry. Today Korea is one of the world's leading producers and exporters of semiconductors. In Korea, technology was being upgraded all the time. Their economy adapted quickly to different levels of technology. I feel that this was a direct result of the emphasis that the Koreans placed on education. I've never come across a country where education is assigned the same priority and value as it is in Korea, both in the private and the public sectors.

Q: Could you tell us a bit about your relationships with the Asian Development Bank, and how they might have changed over this time?

HUSAIN: My view was that it was probably the best managed of the regional banks. Certainly the Japanese played a huge role in that. The only thing worth mentioning is our decision to co-finance all of our lending in the Pacific Islands with the ADB. This meant that we would not do project supervision. All of that would be done by the Asian Development Bank.

Q: And the Japanese influence was growing economically and financially during these years?

HUSAIN: Yes.

Q: Did that present any issues for the Bank?

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HUSAIN: No. It was, even then, very obvious that the center of that area was Tokyo. In Indonesia and Thailand especially, the Japanese funds, particularly the Japanese aid funds, were becoming very important. At the end of the period, Thailand had so much Japanese money that it didn't need any World Bank money.

Q: In '83, you made another major career move.

HUSAIN: I moved to the Operations Policy Vice Presidency at that point.

Q: Who decided that you should do this?

HUSAIN: This was put to me by Ernie Stern. He suggested that Warren Baum was going to work for a year or two on a couple of books and then retire, and that I should take over that vice presidency. He put it to me in very flattering terms, saying that I was one of the few people in the Bank who thought about issues, and that there would be a lot of delegation. I took it, but my subsequent experience was not that happy.

Q: Can I ask why?

HUSAIN: Because these things didn't materialize.

Q: Aha!

HUSAIN: In my intellectual growth it was very important. It acquainted me further with a breadth of issues which you don't normally have as a Regional Vice President; issues in population, agriculture, industrialization, and infrastructure. Remember, however, that this happened also when the importance of policy work in the Bank declined. The next President of the Bank did not have McNamara's intellect.

In addition, my relations with Stern deteriorated over this period. I didn't like Stern's management style. He was obsessed with control, and he did not pay enough attention to strengthening people and practices. The delegation that he had promised never materialized.

When I came, I wanted to lower the weight of loan procedures and successive reviews. He wouldn't agree to that.

I don't think that it was the happiest of periods in my career. However, I did try to make a major impact on the way the OPS was managed in terms of priorities, programs, management and so on. By the time I left OPS, I felt that it was a better-managed place.

[End Session 2]
Q: I'm Lou Galambos of Johns Hopkins University and the Business History Group.

Q: I'm Bill Becker of George Washington University and the Business History Group.

HUSAIN: I'm Shahid Husain, Vice President of the World Bank.

Q: I am David Milobsky, the assistant to the historian.

Q: I'm Jochen Kraske, the historian of the World Bank.

Q: Picking up where we were the last time, we had touched upon the 1980s and your period as Vice President, Operations Policy Staff, and you had indicated to us, I think very clearly, that this was not the happiest period of your life. This was the post-McNamara era. Could you start off by giving us some sense of what changes took place in the organization in the wake of McNamara?

HUSAIN: Let me say first that for a long time after McNamara left, the World Bank remained the McNamara Bank because many of the key players in the institution were people who came up during McNamara's presidency. Ernie Stem, Moeen Qureshi, myself, Kim Jaycox, and others remained essentially in the forefront.

When McNamara left, I think there were two or three important changes. First, the relationship with the U.S. Government changed. Before McNamara left, he appointed Al [Albert] Fishlow as Chief Economist of the World Bank. I think he was, at that time, Professor of Economics either at the University of Pennsylvania or Princeton. Al Fishlow was viewed as a left of center economist. He was very liberal—a person who saw the state playing an interventionist role in alleviating social inequities. Meanwhile, the Reagan Revolution was gaining momentum. Don [Donald T.] Regan and his colleagues in the Treasury sharply criticized Fishlow's appointment. The Wall Street Journal also sharply criticized Fishlow's appointment. The Wall Street Journal also sharply criticized Fishlow's appointment.

When [Alden W.] Clausen came, then one of the first things he did was to rescind the appointment of Fishlow. Chenery remained for a short period, but soon thereafter Anne Krueger, who had been a Professor of Economics at the University of Minnesota, was appointed Chief Economist of the institution. She was a very conservative lady, very much hand-in-glove with the U.S. Treasury.

Now, Anne Krueger basically took it upon herself to roll back much of the work done by Hollis Chenery, who had been one of McNamara's chief advisers. Chenery had spearheaded much of the Bank's work on issues such as poverty, energy, and so on. Anne's theory was that the market was supreme. In her view, the state should allow markets to work. It should not actively seek to eliminate poverty and income inequalities. More importantly, she also initiated a process of

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"ethnic cleansing" within the Bank. She got rid of anybody who had been associated with Hollis Chenery.

Krueger and Ernie Stern had problems dealing with the debt issue. When the Mexican debt crisis arose in August 1982, it was very clear that the Bank had been caught napping. While the Mexican crisis was building, the Bank continued to lend large sums of money to Mexico. More importantly, the Bank had been encouraging all countries, including the petroleum producing countries, to borrow massively. An economist's note which warned of a possible debt crisis of Mexico was shot down. His report never saw the light of day.

**Q:** How would it be that the economist's report would be "shot down"?

**HUSAIN:** This economist was a relatively junior person who wrote a note, and it was put in the files somewhere. It was not incorporated in any main report of the Bank which went out to the Mexicans or anybody else.

**Q:** Did it conflict with the basic policy of the Bank?

**HUSAIN:** The basic policy was Expand, Expand, Expand. And nobody was prepared even to think that Mexico could be getting into trouble. However, I also think that there was other motivation behind it. It may have been that the western banking institutions were severely exposed and that the World Bank did not want to say or do anything which would aggravate the issue. Remember this was the Bank which, in the previous decade, had made a public case for the recycling of the petrodollars. As a result, it was not eager to call attention to the emerging debt crisis.

At some time around the middle or end of '82, Ernie Stern suggested to me that I should take over the Operations Policy Staff. Warren Baum wanted to retire. He wanted to write a book. Stern told me that he thought that I was one of the few thinking people in the Bank, and that this was a senior appointment. He told me that he would want to delegate a significant amount of responsibility to me. Taking Stern at his word, I took the job, despite the advice of a number of my friends. In retrospect, this was not a good move. Stern was not prepared to delegate anything.

I started work on the debt issue immediately after I took over as Vice President OPS. Somewhere around the late summer of 1983, I sent out a summary note to the Executive Directors which basically said that the Debt Crisis was not a liquidity crisis, as Krueger claimed, but a fundamental structural issue. It also said that the debt of a number of countries, including Chile, Argentina, and Cote d'Ivoire, was untenable.

**Q:** Could you tell me about the relationship with IMF vis-à-vis the Debt Crisis at this point? Was that a major factor?

**HUSAIN:** The IMF was working very closely with Paul Volcker on the various programs. It essentially took the same view as Paul Volcker, that it was a liquidity issue.

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Continuing on, the Executive Directors read my note and invited me to a lunch meeting where I presented my thesis. There was a lot of excitement about it.

Meanwhile, Ernie Stern and Anne Krueger didn't want to hear anything about the structural aspects of the debt issue.

When the main report propounding my thesis was completed, Ernie would not allow the Regional Vice Presidents or the Operational Vice Presidents to discuss it. I was in Paris when Ernie stopped this paper. I returned to Washington straight away, protested to Clausen and he directed that my paper should be discussed with the Vice Presidents. Ernie was very hurt that I had gone to Clausen without saying anything to him. Anne Krueger strongly disagreed with my thesis that there was something structurally wrong behind the debt crisis. The final version of my paper that went to the Board was not allowed to go as a Bank paper but as a Staff paper, and, as a result, was not discussed at the Board.

Krueger's position on the debt crisis remained the Bank's position until the Seoul Annual Meeting of 1985, when Jim [James A. III] Baker came out with the Baker Plan. The Baker Plan still considered the debt crisis a liquidity issue, although there were structural aspects to it. Baker felt that international organizations should work with the indebted countries on structural adjustment programs which would be combined with the restructuring of debt. After I returned from Seoul, we began structural work on all the Latin American countries. I led that effort.

After George [H. W.] Bush came to power, everybody finally recognized that the debt crisis was a structural issue and then the Bank fell in line. The Bank, intellectually, failed the developing countries and its constituents. It didn't even provide a decent analysis of the debt issue. The lead was clearly in the hands of the U.S. Treasury. The Bank and the IMF saw their role as simply following the U.S. Treasury's lead.

That was the fundamental change that took place between the McNamara times and the post-McNamara times. On key issues, like the debt issue, the Bank had basically ignored its role as an independent thinker and as an independent propounder of policy. Instead, Krueger and Stern chose to limit the Bank's role to one of implementing the policies of the U.S. Treasury.

Although Clausen had a great reputation as a manager, he was intellectually weak. He had an inferiority complex which hindered his ability to lead. His concept of management was a very mechanical one. He believed in meetings, papers, and management objectives. He tried to bring his management philosophies to the Bank, but he was so lacking intellectually that he basically surrendered the management of the institution to Ernie Stern.

One of Ernie's first acts was to break up the old Development Policy Staff and take away much of the country economic work from them. The old Development Policy Staff was reduced to a rump, basically for research. All their applied functions were taken away from them and incorporated into Ernie Stern's large empire.

The second thing that happened when Ernie took over was that he became the gatekeeper to the President's office both in terms of ideas and people. No paper would go in or out without Ernie's

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stamp on it. Essentially, he made himself the chief operating officer of this institution, and remained in place throughout the Clausen period.

By and large, Clausen will be remembered as a very weak President, with absolutely no intellectual capacity to manage this institution. His only two contributions were the introduction of the variable lending rate (which, I think, has been a good basis for the financial management of this institution), and secondly, the creation of the Multilateral Investment Guarantee Association. That's it.

[Barber B.] Conable came with a mandate to cut back the size of the Bank. Even before he stepped into the Bank, he had been told by the U.S. Treasury that the Bank size has to be cut back by 500 people. He came here in June of 1986, and by the fall he had announced that he was undertaking a full reorganization of the World Bank. He appointed four senior vice presidents along with a host of consultants and committees to reorganize the Bank. The reorganization was a tumultuous period in the Bank's history.

Q: The reorganization, then, did not grow out of perceived problems within the Bank but came from the top down. It did not bubble up through your organization.

HUSAIN: That is correct. This was the U.S. agenda promoted through Barber Conable. Remember that the sum total of Conable's management experience was managing one secretary. He had been a Republican Member of the House. He was never a part of the Majority Party. He never headed any committee and never had any management function. None. Now he had to manage this huge international organization which dealt with very complex issues. He was lost at sea.

Conable was also extremely suspicious of everybody. He trusted nobody. He only had two confidants in this organization. One was Bill [William J.] Stanton, a former congressman who became his adviser on Congressional affairs. The second was his Congressional secretary, Linda McLaughlin, whom he brought with him. Fundamentally, he managed the institution by making his top managers fight with each other. His secretary acted as referee. It was a period when Moeen Qureshi, Ernie Stern, and Willi Wapenhans fought each other daily. Later on, Conable appointed as his assistant a very strong German lady by the name of Marianne Haug, who ultimately became the shadow president. He would come to meetings and basically read out little strips of papers which Marianne gave him.

Q: Could you talk about one of the issues that the senior officers would have these struggles over?

HUSAIN: They fought over the whole reorganization. Basically, the suggestions for reorganization were given to a staff committee headed by Kim Jaycox. The recommendations of the committee were never systematically reviewed by any responsible forum, and I don't think Conable ever read the reports of the committee. Ernie Stern sulked throughout this process because this clearly was a cut in his power. He almost left. In short, this reorganization did not represent consensus at any level, and certainly not at the top level.

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As for myself, I was in Operations Policy Staff at that time, and at one point I was very aggrieved because I considered myself infinitely superior to people like David Hopper or Willi Wapenhans. David Hopper was regarded as the worst manager in the Bank, and he used the Bank as his travel agency. Willi was a very able man, but he never took decisions. His endless meetings often led to paralysis through analysis. I made a strong bid to become Vice President for Latin America. I had studied the debt issue in depth, and I felt that I would make a substantial contribution to it. After a lot of to-ing and fro-ing I was nominated for the position.

Q: Can I ask you a couple of things about your time in Operations? You changed the role of EDI [Economic Development Institute]. Could you talk a little bit about that?

HUSAIN: EDI had been an extremely valuable part of the Bank's framework. Over the years, EDI, by bringing officials from developing countries, had made a tremendous contribution to grounding the project concept in the developing countries. Later on it offered courses on economic policy and so on. Nevertheless, it remained a small vest-pocket organization which brought people to Washington and then sent them back, so its multiplier effect was very small.

Even before I came into OPS, I was appointed chairman of a committee to look at the organization and future of EDI. We basically asked one fundamental question: If EDI is such a good and valuable organization, how do we increase its multiplier effect? How do we improve the capacity of EDI to have an impact on economic management in developing countries? We made three or four recommendations.

First, we felt that EDI should cooperate much more with training institutions in developing countries, and therefore leverage itself by participating in their programs and their courses. Instead of training one person from, say, Pakistan, it could contribute to the training of a hundred people in Pakistan by working with the training institutions in Pakistan.

Secondly, we felt that EDI should focus more on training trainers as a part of capacity building in the developing countries.

Thirdly, we also felt that issues of broader management of economic policy in the institution had become very important, as the Debt Crisis and the crisis of economic development showed. Therefore, we encouraged EDI to introduce more seminars for senior policy makers on key issues of economic policy. This also meant that its resources should expand, and that recommendation was approved by the Board. When I went into OPS, I named Christopher Willoughby Director of EDI. He was a very, very dedicated, single-minded person who did extremely well in implementing our new vision of EDI. I'm extremely happy about the concept and its implementation.

Q: The other area where you introduced changes was in agriculture, where you had substantial experience yourself. Will you talk about that a bit?

HUSAIN: One of the happier aspects of my work in OPS was my chairmanship of the Consultative Group on International Agricultural Research. This is a unique organization, born out of the Food Crisis from the work done initially in the Ford and Rockefeller Foundations. At S. Shahid Husain

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I came in contact with people I would not normally meet, people of substance, scientists who were totally dedicated to the food issues. CGIAR yielded significant dividends for the developing countries. I found working with that group very gratifying. I spent a lot of time building consensus on issues of agricultural research in developing countries, and mobilizing funds for CGIAR.

I think one of my major contributions was linking national agricultural research and international agricultural research. I helped to organize "SPAAR," which means Special Program for African Agricultural Research, where U.S. donors, led by the World Bank, worked jointly to improve the quality and organization of agricultural research in Africa. SPAAR linked this effort to work being done in international agricultural research institutions. I understand that it's doing extremely well.

Q: Before moving on, could we follow up with one question about the U.S. Government's influence over the Presidency of the World Bank? To what degree has the Government helped (or hindered) the office of the President to be an effective governing body for the rest of the institution?

HUSAIN: The U.S. Government was so concerned about the high profile of McNamara that, after his tenure, it nominated retired gentlemen to the Presidency of the Bank. Clausen retired from the Bank of America. Barber Conable had retired from Congress. In my view, the best person the U.S. has sent to the Bank since McNamara is our current President, [Lewis T.] Preston. He is an outstanding manager; he delegates authority; and has a tremendous capacity to understand the capabilities of the people working for him. In addition, he has been very much involved in international issues, as the Chairman of J.P. Morgan. When I was Vice President for Latin America, his understanding of issues and people in Latin America impressed me a great deal.

On the whole, there has been a bit of a recovery in the institution since Preston came here. However, the damage done under his predecessor's watch was very severe. The Bank's intellectual work, operating processes, and public image all suffered greatly during Conable and Clausen's presidencies.

I wish to return to the 1987 reorganization for a moment. In a hurry, 500 people were let go, some rightly, some wrongly, but in a great hurry nonetheless. It led to massive scars around the organization, and since then, a whole environment of security-seeking has overtaken this institution. You can't even get rid of a person who has a bad performance record anymore. In short, it has been massively counterproductive. It made the institution much more rigid than it was before 1987.

Secondly, the effects of the reorganization were very mixed. One of the major creations of the reorganization was the so-called Policy Planning and Research complex. It was an interesting concept, but, they chose a man with no credibility to run it. He hardly spent any time on the issues of strategy, program focus, and people. The bulk of this PPR was my old Vice Presidency of OPS.

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Now, in the four years I was in charge of OPS I made a tremendous effort to build people and capacity. I had fabulous Directors. In '87, most of them were thrown out. The World Bank's finest man on agricultural economics, Hans Binswanger, had no place. I took him into Latin America. The World Bank's finest man on education (internationally renowned, probably had a hundred publications on issues of education finance and management) had no place. I took him into Latin America. One of our finest economists, [Marcelo] Selowsky, was fired. Now he's chief economist on Europe. I took him into Latin America. Armeane Choksi (now Vice President for Human Resources) and Nancy Birdsall (now Executive Vice President of IDB [Inter-American Development Bank]) also became "refugees" who migrated to the Latin America Region. The overall quality of Directors in this Research Complex was unbelievable, and almost all of them were let go.

The biggest loss that came with these two successors of McNamara was the throwing away of the Bank's intellectual heritage. We still have not recovered from it. The Bank has lost a tremendous amount of authority and credibility across the world. We are barely beginning to rebuild it.

Secondly, if you look at what happened to the manpower and the budget of this institution since 1987 when the reorganization took place, you will find that full-time staff and long-term consultants have increased by close to 25 percent. So, immediately after the reorganization fired 500 people, we got all those 500 people back and some more. Meanwhile, our budget, in real terms, has increased by about 30 percent.

What has happened to our output? It has stagnated. The number of loans we make has not increased. Our portfolio has not increased. We are doing more in Eastern Europe; we are doing more environmental projects; but we can't escape the fact that the Bank is more inefficient and less productive than it was just before the reorganization.

The reorganization created very strong operational regional vice presidencies, but the rest of the Bank, particularly the support area, has been a gutter. This vice presidency that I'm presiding over now is unbelievable. The amount of waste and lack of management astounds me. Where the Bank was exposed to public scrutiny, such as in the Regions, we had strong work. However, where the Bank was not exposed to the public light, the Bank has gone down massively, and therefore what we have today is a top-heavy, bloated institution, which is the result of these years of mismanagement and neglect.

Q: Would you say that the regional vice presidencies have become stronger?

HUSAIN: That's one positive thing that has happened.

Q: And that's because the '87 reorganization decentralized operations?

HUSAIN: It exposed the Regions to public scrutiny as well as the scrutiny of the Board. That kept them on their toes, but the rest of the institution lost a lot of ground. Ultimately the symbol

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of all this inefficiency has been the great fiasco of the new building. Here we are, the world's supreme project financing institution, and we can't manage our own project.

Q: You mentioned that you had assembled a formidable policy development team. What kind of changes, before '87, had you made in the development of policy with that team?

HUSAIN: Africa became a major theme for us--African agriculture, African education, Africa population issues. We also did a lot of work on the issue of debt and structural adjustment, particularly in the wake of the Debt Crisis. We also focused on food security and poverty as well as the financing of infrastructure in developing countries. I think that I had assembled a first-rate team in OPS. Most of them came back to work with me in Latin America.

Q: Let's talk about Latin America a bit. There were some major problems there.

HUSAIN: After the '87 reorganization, we created four Country Departments. I personally selected the Directors. Armeane Choksi headed Brazil. He was one of the ablest, bright young people in the Bank. He was with me in the Operations Policy Staff. Pieter Bottelier, who had been working on Mexico, became Director for the Southern Horn. He had worked with me before on Indonesia. Ping Loh, who had worked with me in OPS, became Director for the Andean countries. On Mexico and Central America, the former Director remained there. We also chose first-rate division chiefs. I told my people to hire staff members for their brains. I assumed that they would be able to learn management techniques and lending procedures. In my view, we assembled in Latin America the Bank's finest operating staff at any time.

The result was that we quickly developed very close dialogues and relationships with governments all across the continent, not simply because of the personality of the people but because of the substance they had to offer. I myself led the effort in the key countries, Argentina and Mexico. I became very close to the key officials and worked with these countries on issues of structural adjustment.

There is one episode that we should talk about—the Argentina episode. In the summer of 1988 I went to Quito for a month to learn Spanish at the Catholic University in Quito. While I was there, I received a call from Moeen Qureshi, who was Senior Vice President of Operations. Jim Baker had just called a meeting with Barber Conable. He was extremely concerned about the possible economic collapse of Argentina and its impact on banks. Baker feared that the Fund had lost its credibility and influence in Argentina because of the personal relationship (or lack thereof) between [Michel] Camdessus and the Argentine officials and the failure of several Fund programs, and he felt that the Bank should do something about this. I cut short my stay in Quito and returned to the Bank. I gathered whatever economists were there and went to Buenos Aires. I stayed there for a month and put together a very fragile and shaky economic adjustment program for Argentina. We got an adjustment loan and some other loans approved for Argentina, despite the opposition of a number of Europeans. They disapproved of the Bank going ahead with an adjustment loan in Argentina without the IMF being there.

In the meantime, Jim Baker left the U.S. Treasury and went off to the State Department, and the U.S. pulled the rug from under us. After pushing us into Argentina they started criticizing us for

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having gone to Argentina without the IMF. In any case, the program failed, and we cancelled these loans, but in the process we got a black eye. We had no operation in Argentina until the [Carlos S.] Menem government came to power. Eventually, we went back into Argentina and worked very closely with the Argentineans on reforming the public sector, reducing the manpower in the public sector, deregulation, reform of public enterprises, and ultimately, privatization. I would say that Argentina has been a golden chapter in the Bank's history. There is no country where, over such a short period of time, the Bank made such a major contribution to so many sectors.

Q: On Argentina, did the IMF try to influence the policy from the top down in the Bank? Didn't you get some pressure on this? Were there differences?

HUSAIN: Oh, tremendous differences. Basically the IMF complained bitterly to our constituents. Camdessus was livid. Ultimately, we were slapped on the wrist, and the U.S., who had pushed us into Argentina, never came to our support on that issue. Never.

Q: But, still, the loan had been approved.

HUSAIN: The loan was approved in Berlin, and there was a tremendous hue and cry, but the misfortune of it was that the Argentineans did not keep their bargain. They did not implement the program, so when we went back to Argentina in early 1989, we found that a number of fiscal targets had not been attained. The Argentinean economic team did not even have a meaningful information system to know what was happening on tax collections and expenditures, so we cancelled the loan right there. Only one portion of the loan had been disbursed.

After Argentina, I took a large mission to Mexico where we put together an economic program. This was a $1.5 billion package of loans. We put together a fabulous Mexican package of public enterprise reform, trade reform, and infrastructure reform. Between then and my departure from Latin America early this year, the relations between the Bank and the Mexicans, the Argentineans, and the Peruvians have improved, but some problems remain.

Q: What I'm hearing is that there was a high level of decentralization, and that you had considerable control over the Bank's policy. Do I understand that correctly?

HUSAIN: I tell my friends that in the last 30 or 31 years of my work in the Bank, I have always been able to do what I wanted to do. Centralization or decentralization has not made any difference. I have been able to organize, stimulate and promote almost everything I wanted to do.

Q: Your view of management, then, emphasizes people and not structure?

HUSAIN: That's right. People and process. My view is that, fundamentally, a good manager has to be able to work in almost any organization. All organizations, ultimately, are flexible when it comes to particular individuals. There are individuals who can write the book of the organization, and there are individuals who are the slaves of the organization. That's probably what makes the difference between one manager and the other.

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Q: Now, one of the issues that hasn't come up so far in our discussions has been the environmental issue.

HUSAIN: Yes.

Q: When did you personally perceive the emergence of an environmental issue here? How closely could you date that?

HUSAIN: When I was the head of OPS, we had an Environmental Division, but I did not fully grasp the importance of the environmental issue.

Q: McNamara had created an environmental group earlier.

HUSAIN: Yes, but he created it basically as a cosmetic measure. He did not fully believe in it. I was one of those who believed that excessive concern about the environment would lead to delays in development. I did not have a sufficient understanding of the relationship between population growth, economic development and pressure on resources. I did not recognize the potential of irreparable damage to human and natural resources. Having said that, I also believe that environmental extremism presents great dangers for developing countries. All human habitation implies a change in the pristine nature of the environment.

One of the great dangers in the environmental extremism and the resultant risk avoidance is that some of the necessary and large investments in infrastructure may not take place. I do believe that dams should be built, but you should, of course, incorporate environmental safeguards. If dams had not been built in India or Pakistan, millions and millions would be starving today because India's food problem has been basically solved by irrigation and fertilizers. The question is: who do you put in front? Human beings? Or the environment?

Like many other people, my own understanding on the environmental issues has come late, but I'm also conscious of the dangers of environmental extremism.

Q: When did you realize that the environmental issue was a fundamental issue that was going to have to be dealt with?

HUSAIN: 1987-88. Only when I got in Latin America, when we established a full-fledged Environmental Division, did I start grasping the full aspect or the full impact of the environmental issue.

Q: And that was because of the pressure that was coming from outside?

HUSAIN: There's no doubt that external pressure has been a very important thing for the Bank in this area. It may have been costly, but, in retrospect, it was necessary.

Q: One of the themes that I pick up from what you said in reference to a number of countries, and also from your work with EDI, is the issue of the quality of the people that you were working with in the developing countries. I believe I read one of your speeches where you talked

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about the need for the Bank to contribute to the upgrading of civil servants in various countries. Could you talk a little bit about that? Doesn't that create problems for the Bank in these countries, since it could appear that the Bank is perhaps interfering too much?

HUSAIN: In that speech, my thesis was that the crisis of development was a manifestation of the crisis of the state. The state in many developing countries, particularly the Latin American countries, had become untenable in terms of its size, its management burden, and, more importantly, in terms of its role as a massive redistributive mechanism away from the people to the privileged groups. If you looked at the operations of the state in many countries, it had become a host of privilege. The economic policies of the state, the subsidies, and the regulations basically had transferred wealth from the people, often through inflation, to a handful of privileged groups; hence the need for a smaller state, and greater reliance on the private sector, which, to me, is also a means for decentralization of authority and responsibility.

That was my earlier thesis, and I still hold to that. However, the second part of my thesis is that a small state does not necessarily mean a weak state. Once it has decentralized, privatized, and deregulated, the state must perform certain functions effectively and efficiently. There is no substitute for the state in certain areas—education, health, security, and essential infrastructure. The state's influence and impact throughout the economy is so pervasive that the worst thing that can develop is an inefficient, ill-paid civil service. Therefore, an integral part of the reform of the state is the strengthening of the state and the capacity of the state to perform these functions.

Hence, the second aspect of our work in Latin America and the second stage of adjustment that we have been following is individual sector work and strengthening the capacity of the government in those sectors. Very early on, even as we were in the last phases of structural adjustment, we massively strengthened the Bank's work on education in Latin America. If you look at the comparison between East Asia and Latin America, one thing that stands out very clearly is how the countries of East Asia have massively emphasized education, basic education, at the very early stages of economic development. In Latin America, it was not done.

I went very early to President [Carlos] Salinas in Mexico and talked to him about the Bank's work in education. Salinas named a man called Ernesto Zedillo to be his Secretary for Education. He is now a Presidential candidate. As a result, the Bank's work in Mexico on education bloomed, and now it's the Bank's largest program on education anywhere in the world.

We did the same thing in Chile on education reform. The man who was named Education Secretary in the [Patricio] Aylwin government was the Number Two man in the country, and we worked very closely with him on some basic education reform.

We are trying that in Argentina. We are trying that in Bolivia. We are trying that in the Central American countries.

In the post-adjustment period, the main theme of our work in Latin America has been human resources. This goes back to my fundamental belief that if you don't work on the quality of the

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human being and his capacity to participate in the economic life, then, ultimately, there will be no viable economic development. I'm very happy that this work is moving on.

The second big build-up in my work in Latin America in the latter period was on the environment. Again, Mexico was the spearhead. Again, we went to Salinas. When Preston and I were in Mexico exactly a year ago, we had detailed discussions with Salinas and his Secretary of the Environment, [Luis Donaldo] Colosio (he was the Presidential candidate who was killed), and we basically put together with him a program on the environment where a third of the Bank's lending in Mexico would be put into this effort. Now the seeds are beginning to sprout. The Bank has just approved large loans for the environment. They focus on air and water pollution, and industrial waste in the border areas. I hope that we can initiate similar programs in other countries.

Q: I suppose one of the major transformations that has coincided with this success has been the political transformation of so many countries in Latin America from a dictatorial phase to a more democratic phase. I suppose that you can also say that where this has not happened or has not succeeded as well as in Brazil, economic success has also been lacking.

HUSAIN: Certainly. I think you are absolutely right. Let me say that during this period, I have seen two fundamental changes in Latin America. One is what you say, that military and dictatorial regimes have disappeared all across the continent. That was largely the result of the very sad experience of dictatorial regimes, particularly in Chile, Argentina, Uruguay and so on. The fascinating part of it is that this economic reform in all countries, except early on in Chile, has taken place in an environment of democratic consensus rather than force.

Even more important than the shift to democracy, has been the emergence of a class of high technocrats, young people in their upper thirties, early forties, who have taken hold of issues and provided the leadership in economic change. Interestingly enough, this technocracy is all U.S.-educated. They went to places like Harvard, MIT, and Stanford. I would say that that's probably the most important single contribution that the U.S. has made to modern Latin America.

By the same token, where the reform of the state has not proceeded in Latin America there has not been economic reform either. The most important single case is Brazil where the political structure remains fundamentally unrepresentative. The Congress has 30 parties. It has no source of leadership, and no basis of consensus between the states and the federal government. The result is a potentially dynamic economy working side by side with a non-viable state. This situation creates inflation and economic malaise. The Bank has not been able to do much in Brazil in terms of economic reform, precisely because the ground has not been fertile for that.

Q: I think we've covered a lot of ground. So I think we'll close.

[End Session 3]
[End of interview]