A CONVERSATION WITH J. BURKE KNAPP

PORTOLA VALLEY, CALIFORNIA

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OLIVER: I think the good place for us to start, if we may, is to review your experience in the Bank. It is listed chronologically in your fine interview with Bob Asher, but there are two or three points I would like to ask about in passing.

In your first incarnation of the Bank, you arrived as Assistant Director in the Economics Department. Two or three questions come to mind about that. Was this the time when Leonard Rist was in charge of the research or economics work? Do you remember Paul Rosenstein-Rodan? Even though you served less than a year in that capacity before you went off on a couple of special commissions, you were in at the very beginning of some of the discussions of the economics work in the Bank and its distinction from loan work. Perhaps you would make some general comments about economics in those days and, if you will, the evolution of economics work in the Bank after that.

KNAPP: Leonard Rist, the son of Charles Rist, the famous French economist, was the first head of the Economics Department in the World Bank. He was the head of the department when I arrived there. Paul Rosenstein-Rodan, who was of Eastern European origin, had come down to become a deputy to Rist. But the two of them together, frankly, were having a tough time convincing Black and Garner that they were capable of doing the kind of economics work the Bank needed -- that is the pretty hard-headed analysis of creditworthiness and the economic merits of projects.

I was hired by Leonard Rist, who was a very close friend in those days. I knew him from my time in the State Department. I was really hired by Bob Garner, because it was Bob who wanted to leaven this highly academic combination of Rist and Rosenstein-Rodan with somebody that, at least he thought, would be a little more practical or down to earth in doing the type of economic analysis he wanted in the Bank. I became the number three man in that team. It was my mission to try to introduce a more critical attitude in appraising country creditworthiness and to do the same with respect to project analysis.

OLIVER: Was the reorganization of 1952, which put a number of economists into various area departments and separated the so called central economics work into a rather small department, an attempt to deal with this problem of directing more economic analysis toward operations per se?

KNAPP: Yes, I think that would be a good description of it. As a matter of fact, it was in that reorganization that I left the economics work and became the first director of the Bank's work in what we then called the Western Hemisphere -- Latin America and the Caribbean. You are right that, on the one hand, the Bank management in the form of Black and Garner were trying to get economists to be more hard-headed, but, on the other hand, they saw the great importance of economics work.
They felt that many of the people who had been hired by the Bank to do actual loan operations were a bit out of their depth too. They were accustomed, you might say, to the normal commercial-banking approach to things and needed more economic content. As you say, a lot of the operational jobs were filled by people who came up as economists.

OLIVER: I want to ask a question about the general economics work in the Bank -- the sort of work that later became associated with Andy Kamarck and then Hollis Chenery and now Anne Krueger. It seems to me that the Bank has always had some trouble knowing exactly what to do with theoretical economics work -- work that might be done at a university. Maybe I could ask a question that relates to this. When you became Vice President for Operations in 1956 and Head of the Loan Committee, if I understand the history correctly, the chief economist in the Bank was not invited to serve on the Loan Committee. This implies to me that the general economics work of the Bank, at least after 1952, was kept separate in some sense.

KNAPP: I'm just thinking about that. The reorganization in 1952 created these new area departments, as we then called them, and staffed them with economists with the idea of having economists that were specialized in Latin American affairs or in Asian affairs or what not. From that time on, the Economics Department, which always maintained its own identity (it was a very important part of the Bank, but, as far as operations were concerned, was a support department), was a center for research and analysis. It was a center for the analysis of the world economy in which we operated and the trends in the world economy that were going to be significant for the work of the Bank. It was by no means an ivory tower.

You said something about how it became a research organization doing something like academic research. There were some criticisms at the time that it was becoming somewhat too academic, but I don't think this was ever a serious danger. The economic obstacles to development always did require analysis, and, in a sense, the World Bank had a critical mass of people that could do such work making it, as I think it generally has been, the real center not only in the United States but in the world of Development Economics. This retreat of the Economics Department from being closely absorbed in Bank operations did not reduce its contribution; it rather meant that there was so much economics work to do that specific country analysis and project analysis were more efficiently done in the economics divisions of the area departments, while the broad, long-range, global analysis could still be carried on in the Economics Department.

OLIVER: I think that, in your very interesting interview with Bob Asher in 1981, you made the point that the 1960s might be thought of as the economic phase of the Bank after the Bank had moved out of the project infrastructure period and before it got into the being-concerned-with-poverty period in the Bank's history. Would you say a bit about this?

KNAPP: Well, yes. There was an evolution from a mere banking attitude to one that brought investment analysis to bear on individual projects, especially infrastructure projects. A new dimension came to be added...
which was the economic dimension. The fact that the Economics Department as such became more isolated from operations should not obscure the fact that the area departments themselves became endowed with economic staffs who did the operations analysis; and they came to pay much more attention, for example, to the division of labor among the nations in international trade, which is a very important underlying consideration in financing projects in countries. They came to a much more sophisticated analysis of the economic rates of returns on projects, which was, of course, something they shared with the projects people.

OLIVER: At any rate, when you talk about the economic phase in the Bank's history, you're talking much more broadly than about the work being conducted in the Economics Department. The operations people themselves were becoming more interested in economic issues.

KNAPP: The operations people were more interested, and they had their own economic staffs in the area departments to conduct that kind of analysis.

OLIVER: Mr. George Woods was president of the Bank for a large part of the '60s -- from January '63 to April '68. Was there some connection between his presidency and this increase in economics work in the operations end of the Bank, or do you think this economics evolution would have occurred regardless of who was president?

KNAPP: I would have to say the latter. I think it was a very natural organic development for the Bank and, indeed, for the thinking about development in what we might call more broadly the development community, including governments, academics, and so on. George was alive to the need for more economic work; he supported it in the administrative budgets of the Bank, but I think he in no sense initiated it, except that he became convinced of its importance.

OLIVER: It was during his tenure as President of the Bank that the economics staff in the Economics Department increased significantly. He hired from outside the Bank Irving Friedman, who was then in the International Monetary Fund, to come to the Bank, to become what was then called "The Economic Advisor to the President." Would you comment in general about that event and about the relationship between the growth of the general economics staff and the economics work being carried out in the area departments?

KNAPP: Well, I think George did make an important contribution to the economics work in hiring Irving Friedman, because Irving was an activist and a builder and brought a new degree of intellectual leadership based upon his experience in the Fund. As I said before, George did give budgetary support in terms of personnel. Irving appreciated the importance of getting a very broadly based team together in the Bank to analyze long-range development trends and developments in the world economy. He came out of the Monetary Fund with its basic interest in the world economy and international trade and the international monetary structure. He already had, through the Monetary Fund, a good deal of experience with developing countries, so when he came over to the Bank he brought that sort of broad-gauge background.
OLIVER: Let me ask you, before I ask a bit more about economics, if you would say a word about a development institution as distinct from a development finance organization. I think you make the point that the Bank began as a bank and a finance institution, but, by something like 1970, it had become a development institution. Is this more than giving economic advice to member governments?

KNAPP: Well, of course, first of all, it's designing our own long-range loan strategy, globally but particularly in countries. We already in those days began to think about country-lending programs and the interrelation of the different sectors and the different projects that we were financing in a country. Our country-lending strategies as plans of action came to be related to country-development programs, and our financial operations and our advisory functions were related to these country-development programs. The advisory functions came to be more and more important, and the country economic reports of the Bank came to contain more and more, you might say, commentary and recommendations as distinct from descriptive materials. Country economic reports became, and the dialogue on those economic reports which we held with member countries before they were eventually issued came to be, a very important part of the Bank's total relationship with its borrowers.

OLIVER: Do you recall a Supplementary Finance Scheme which was born first in UNCTAD and then was studied within the Bank by the economics staff? This was a proposal to have the Bank guarantee to finance a country's imports, even if its export earnings might fall short of anticipation, if the country doing the borrowing would promise the Bank that it would carry out certain policies of a monetary and fiscal policy nature. I think it was discussed in the Bank in the '60s and was never agreed to. The reason I ask the question is that it is very similar to the idea behind Structural Adjustment Loans which are much more highly regarded nowadays than they might have been in the Bank in the '60s.

KNAPP: Well, to be honest with you I don't remember much about that.

OLIVER: I'm basically still trying to get at the issue of the relations between the general economics work, on the one hand, and the operations or loan work, on the other hand. I think there was a time in the '60s when Irving Friedman sought to have the economic advisors and indeed even the country economists in the various area departments report in some sense to him as The Economic Advisor to the President, and this was resisted by most of the economists in the area departments of the Bank. This was happening at the same time that the work in the Economics Committee was being expanded somewhat. Was there to your recollection a conflict of sorts going on in the Bank about the kind of economics work that should be done or about how it should be managed or whether it should be expanded so as to become more concerned with macroeconomic issues?

KNAPP: I don't remember the details of this very well, but I think that the issues that arose at that time were not issues about the kind of economics work to be done but rather, let's just say, about bureaucratic arrangements. The country economics work had been
decentralized to the regional departments when they were set up. I think there was a feeling that the work of the Economics Department and the role of the Economic Advisor was best discharged by general discussions in the Economic Committee and in the framing of general policy papers, leaving to the regional departments their own autonomy in conducting country economic work.

OLIVER: Do you remember yourself attending meetings of the Economic Committee in the '60s? You don't mention it in your interview with Bob Asher, so that I get the impression that this was not a major operation as least as far as loans were concerned.

KNAPP: No, not as far as loans were concerned. I don't think I attended any formal meetings of the Economic Committee. All the members of the Economic Committee were well known to me. As a matter of fact, most of the members of the Economic Committee were officers of the regional departments under my supervision. In a sense, I was their line commander with Irving Friedman and his Economic Committee in a staff capacity.

OLIVER: I, myself, have never had the opportunity of meeting George Woods, so I am getting to know about him only through others. I would appreciate your saying what you care to about George Woods as a person and also his manner of managing the Bank.

KNAPP: Well, George was a pretty extraordinary person. He was very intelligent and very clear in his mind about his objectives. His opinions were held very strongly -- he wasn't the kind of fellow to be put off by arguments that didn't coincide with his own views. He was in this respect quite a contrast with his predecessor. Perhaps that is why one thinks of him as having sharper edges. His predecessor, Gene Black, was kind of a country gentleman. His whole personality had very elegant, rounded features, so that the much more jagged, powerful mind that came forth from George Woods stood in some ways in very marked contrast, which is interesting, because the two of them had been very long associated and were great friends.

George could be severe with people to the point of being rough, I would say. Then again maybe it is all relative because of the contrasts. Certainly when George first came in a lot of people around the place, including myself, had to make some adjustments to establish a good working relationship with him. I never had any real trouble about that. I can tell you that over the years that George was there, and after he left, people would come up to me and say, "Gee Burke, you must have had a pretty rough time working under George in those years. How was it?" Well, I never felt it was that tough.

We knew each other from before the time that George became President, mostly in connection with those things which he was involved in that involved the Bank, such as the Suez Canal crisis and the building of development finance companies in India and elsewhere. I remember working with George on the Kaiser venture in an aluminum smelter in Ghana. Anyway, I knew George before he came in, and that was a great help to our relationship. George immediately made clear to me that he wanted to see me continue in my work. We would set up patterns of consultation. I came to know pretty soon how much he
wanted to be brought into things, and how much he would expect me to carry out on my own authority.

We had our differences from time to time, and he didn't always accept my recommendations to him on actions to be taken, but I always thought I got a fair hearing on those things. I would say our relationships were never as easy as they had been with Gene Black, but I always remained very happy in my work feeling that I had a boss who understood what we were trying to do together. Still it is very interesting how many people have said, "Oh gosh what a terrible time you must have gone through." Of course that reflects the fact that the other's relations with George had not been as satisfactory or satisfying.

OLIVER: I have been told that in the second half of the Woods years, '66 and '67, his relations with the Board became somewhat more difficult. I don't know if that is true because of the IDA replenishment problems, or whether the amount of loans being submitted to the Board was larger, or whether there were genuine personality differences between Woods and some of the Board members. Let me just ask you if you think it was in general true?

KNAPP: I can't really say. I mean when you ask me the difference between the earlier years and the later years and whether there was a deterioration, I'm not sure. I would guess that that would be true. There is always a kind of honeymoon period when the new president comes in and the Board wants to get to know him better, but the relationship in the World Bank between the Board and the President is not ever likely to be a very congenial one. The members of the Board are there to establish the policies of the institution and all that, but they also have their own axes to grind, and it is the very business of the President to resist these self-serving interests of the Board and to keep his eye on the overall good of the membership. The President is likely to be chivvied, if I may use that expression, by the Executive Directors from time to time to suit their own national interests. George's reaction to that generally was, "God damn it, I'm not going to be chivvied around by these Directors." He wasn't accustomed to that in his private-sector experience, and he wasn't going to accept it from the Board of Directors, for many of whom he didn't have that much respect in terms of their intellectual capabilities. So it's probably true that things deteriorated.

OLIVER: I believe you mentioned in passing a project in Ghana involving Kaiser Aluminum. Since I've not heard about this, would you briefly tell me about it?

KNAPP: Well, this was one of the great African projects of the day -- to build a damn on the Volta River in Ghana to supply electric power not only to Ghana but to neighboring countries. It was too massive, too large scale a project, to find its economic justification unless some very large consumer of electricity could be brought in to consume an important part of the production. Jack Kennedy got into the act himself. He talked to various aluminum companies. It ended up with the Kaisers, who were persuaded to locate an aluminum plant in Ghana to make this project feasible. I personally handled the negotiations for
this project. Edgar Kaiser was the president of the whole range of Kaiser industries, and handled a lot of the discussions on that side. George Woods was there as the financial advisor to Edgar Kaiser.

OLIVER: This would have been what year? It was before George Woods was President.

KNAPP: Yes, that's right. Just in the year or two before he was President. The World Bank was asked to finance the dam and the power plant, and we wanted to see a satisfactory contract signed between the Ghana government and the Kaiser aluminum interests to produce revenues which would be adequate to repay the loan. There was a three-way negotiation between the Ghana government, the World Bank, and the Kaiser Company.

OLIVER: I wonder if you would also say a word about any of the other Woods' involvements with the Bank before he became President?

KNAPP: Well, the things that I remember in particular I think I mentioned earlier. One was the involvement in the Suez Canal negotiations, with which I was not personally associated. He was along with General Wheeler. I guess the two of them in particular, with Sir William Iliff, who was another Vice President of the Bank, guided the discussions. They were concerned with the negotiation of a payment of compensation by Egypt to the previous private owners of the Suez Canal in order to clear the path for the restoration of Egypt's credit in the World Bank.

The thing that I am more familiar with, because it touched me more personally, was the work that George did in connection with the creation of what we called at the time the Development Finance Companies. The classic case was the creation and fostering of the ICICI in India, which was a private company assisted by some government money on very generous terms but left to operate autonomously in using both their rupee resources, which they got mainly from the government and their own private shareholders, and foreign-exchange resources, which were provided as loans from the World Bank, deploying these resources in financing industrial development in India. George spent a lot of time in helping to set up this institution, helping to recruit the board of directors and the management in India and guiding its early years.

OLIVER: Did you have a feeling that, when he became President of the Bank, he was particularly interested in India as a member country?

KNAPP: I can't recall any particular support for that, but he always retained very close contact with Indian friends, and India was one of the very large members of the Bank, so I'm sure he gave it a lot of attention.

OLIVER: One of the major events of the Woods years in the Bank was the Bell Mission to India, headed by Bernie Bell, which produced a 14 volume report. I have two questions to ask about that. Was this Bell Mission sort of a beginning of what later became country evaluation studies and were particularly important in the McNamara years? Was it a precursor of that sort of thing? That's the first question. The other: would you comment about the fuss that was raised in India, which rubbed off to some extent on George Woods as a person, as a consequence
of the Bell Report?

KNAPP: Yes, I think it was a precursor of the more analytical and far-reaching studies which the Bank came to do of its member countries. In the early years of the Bank, of course, we did a lot of country studies — in fact some of the them were published as books in the early days.

OLIVER: Many of which I have.

KNAPP: But they were very largely descriptive. They were designed first of all to inform the Bank, but also to inform the private banking and industrial and commercial fraternity and the world at large about the economic character, resources and management of many countries which at that time were pretty far out on the periphery of the vision of the people in the western world. These early books, as I say, were very largely descriptive. The Bell Mission report was of a far more analytical character and ventured far more in the way of judgments and recommendations than the earlier country studies. In that sense, it was a precursor of the economic work that came later.

On the question of the controversy that this report brought out in India, my recollection is that the controversy was over some of the recommendations, either implicit or explicit in the report, that dealt with sensitive matters of Indian policy, the most sensitive of which was the value of the currency. The report, as I recall it, did not recommend devaluation, but I think it clearly hinted that a downward adjustment in the value of the currency was one of the solutions to the problems that had developed in India. It is my recollection (I'm not sure how far this can be relied upon) that this was not particularly objectionable initially to the Indian government or the Reserve Bank or the monetary authorities. They probably had their own sensitivities about it, but it was seized on by some of the press. The Indian press is a very free press, and some of the press began to seize upon this as an infringement on national sovereignty. I remember there were some pretty big words used about what a serious insult this was to the dignity of a nation. You must remember that India is a pretty massive nation and has its own traditions and ways of thinking.

Yes, there was some trouble over the report, and Bell himself was criticized roundly by some of what we might call the nationalist press — the ultra nationalists press, and once this had happened and pressure was brought on to the government, they got a little stiff necked about it too. But, as I look back upon it, I rather feel: Yes, this kind of report was a precursor for other reports for other countries that were subsequently done by the Bank, and that experience — a debate or controversy between the Bank and the country concerned — was also a precursor for that kind of thing elsewhere; it was, perhaps, an example where the Bank's frankness in expressing views got a test. Yes, this aroused a controversy, but it also meant that countries got to be a little more used to that kind of thing. It was, after all, rather a storm in a teacup, and it did not discourage the Bank from being frank in its exposition of problems or even in suggesting solutions. I think we had to go through that phase of it, a testing time. We had to learn, perhaps, how to get these messages across in a way that would not raise such opposition as to
endanger their adoption, but gradually countries also had to learn that
while there were a lot of assets for them in the Bank, they had to
accept some obligations too.

OLIVER: Was this part and parcel of the Bank's evolving into a
development institution?

KNAPP: Yes, exactly.

OLIVER: By the time there were country review committee discussions
about the economics of individual countries, was it relatively common
for the Bank to talk about things like exchange rates?

KNAPP: No, not publicly. I might have commented on that before. The
exchange rate was a particularly sensitive matter in two senses. First
of all, just to deal with a bureaucratic one, it was very much the
province of the Monetary Fund to make judgments about exchange rates.
Even today, after all the expansion of the economic and financial work
and analysis both in the Fund and the Bank, even today the Bank accords
to the Fund the prime voice in making judgments about exchange rates.
So the Bank would be reaching a little beyond its proper jurisdiction,
perhaps, to address such a subject.

The second respect in which this was a very sensitive issue is
that fortunes are made in the markets on changes in exchange rates, and
speculation in the exchange markets can do grave damage to underlying
economic activities. So there is no doubt that devaluation was a far
more sensitive issue than almost any other that you could have picked.

OLIVER: I would have thought that that would have implied that the
discussion of monetary and fiscal policy also was a bit difficult. I
would have thought that a country employing a monetary and fiscal
policy that leads to inflation while trying to maintain anything
approaching fixed-exchange rates presents very substantial macro-
economic problems. I don't see how the Bank can talk about development
without dealing with these issues, and yet it sounds to me like it's
more a Fund analysis kind of thing than a Bank analysis kind of thing.
Let me ask my question in another way. It appears to me that the
project approach of the Bank from the beginning implied that the Bank
is more concerned with what we now talk about as micro-economic
analysis than macro-economic analysis. On the other hand, it is
natural that the Fund would be more concerned with macro-economics than
with micro economics. Am I pushing things a bit?

KNAPP: Well, no, I think that is true. The Fund has its own micro
interest in, let's say, the administration of exchange controls,
multiple exchange rates, or what not. There are techniques that are
very particularly in the Fund's bailiwick. The Bank, of course, in its
role as a bank for projects is doing a lot of micro analysis. But it
got into macro analysis from the beginning in studying and appraising
and making judgments on country creditworthiness. There couldn't be
anything more macro than that -- looking at a country in the round and
at its capacity to service its debt.

OLIVER: I want to ask a final series of questions if you have time.

KNAPP: Sure.

OLIVER: We were talking about country review work and also about
economics. Who was the economist who was the Vice President for
Economics who served first on the Country Review Committee? Was that Hollis Chenery? Does that practice go back to Hollis Chenery's tenure in that job?

KNAPP: Hollis Chenery certainly became a very important part of the country review procedures. The procedures were instituted under the McNamara regime, and Irving Friedman, as the chief economist in the first years of that regime, must have participated in the country reviews. Over the long span of years, I certainly think of Hollis as taking a very prominent part in the country reviews. The country reviews were conducted by McNamara with respect to major countries, so to speak, and under my chairmanship with respect to the minor countries. This was simply because we conducted these reviews in the later years for 80 to 90 countries, and it was a little too much to put on the plate of the President personally to participate in every one of them.

OLIVER: I asked the question about the presence of the chief economist on these review committees partly again to ask the question about macroeconomics. Did questions about monetary policy and fiscal policy not only relate to creditworthiness but also to advice the Bank might give these countries as a result of the country reviews becoming increasingly prominent in the '70s?

KNAPP: Oh yes, very much so. Bear in mind that one of the very important issues in a country lending program is how much can be mobilized in domestic resources in the country concerned -- which takes you straight into fiscal policy. Where budgets are being financed by deficit financing and reliance on an expansion of the money supply, it takes you directly into monetary issues. This was indeed a very important part of country reviews. As you know, the Bank contribution to finance a project is always some fraction of the total cost. Without making too much of it, the cut-off point for the Bank normally would be the foreign-exchange cost, and it would be expected, especially from the countries borrowing from the Bank as distinct from IDA, that the country concerned would mobilize its own local-current resources. So, yes, countries' monetary and fiscal policies procedures and results were very important to country reviews.

OLIVER: Asking you to look into your crystal ball if you will for a moment, would you guess that the apparent new emphasis on debt restructuring and on Sector and Structural Adjustment Loans will move the Bank in the future somewhat farther away from strictly project lending as distinct from program lending?

KNAPP: Well, I am a conservative in this area. Over time, the Bank has been urged to move more and more into the area of program lending, macro-economic lending, or sector lending with quick disbursements and without much in the way of conditions as to how the money is spent, the conditionality being more of a macro-economic or sector kind. That's an instrument which can indeed be used effectively in certain situations. There is a temptation -- I think a dangerous temptation -- to say that the quick disbursement feature of such loans is what is needed in these days of balance-of-payments difficulties in many developing countries. Countries that are heavily ridden by debt welcome quick disbursement as
a way of obtaining funds to service their external debts. I think the instrument is important and useful, but there are dangers about it.

There is a danger of the Bank being manipulated into a position where it disburses funds against promises of macro-economic performance which are easy to give but hard to live up to. Borrowing countries may over promise in order to get the very attractive feature of a quick disbursement loan. Another way of putting it is that I don't want to see the Bank get into a position of trying to bribe people through quick disbursement loans to moderate and adjust their macro-economic policies. Not only would that be wrong in principle, but it wouldn't have lasting effects. Unless countries are really convinced through their dialogue with the Bank and the Monetary Fund of the need for a basic revision in their underlying macro-economic policies, the effect will only be transitory, and it will not in particular produce the means of repayment for these loans. My own experience in the Bank gives me an institutional bias toward what I know to have been the principal metier of the Bank, which is project financing.

The second major problem about overexpanding in the area of program and adjustment loans is that the importance of the basic project financing comes to be under appreciated. The fact is that, in the long run, developing countries, especially those that are heavily indebted, can find their salvation only in expanding production, in finding ways to invest money productively in whatever type of project is required for producing real growth, yielding real fruits in terms of the expansion of production and exports. It is also clearly true that project financing alone within a macro-economic policy framework that is distorted and misdirected won't do the job. You have to do both. Therefore, I like to see the Bank have both instruments, but I am under the impression that some people are pushing the Bank too far to minimize the project approach and to cast too much of its support in this other direction.

OLIVER: Long run growth requires sound micro and macro policy simultaneously -- something that we need to realize in the United States. In commenting on the country studies in your interview with Bob Asher, I believe you suggested that the financial requirements of the institutions over a period of years will be defined by the aggregate of the country programs.

KNAPP: The financial requirements for financing the Bank?

OLIVER: Yes. And it is my understanding that this is the way the Bank's suggestion for the Second IDA Replenishment came about. The question was asked how much each country could usefully use per year for the foreseeable future, and that number provided a basis for IDA. I think the number turned out to be $4 billion, half of which it was thought would come from bilateral aid and half of the rest would conceivably come from IDA. I'm wondering if this is your recollection as to how the billion dollar per year number first got on the plate to be talked about in the case of the Second IDA Replenishment. That is a general lead-in to invite you to say what you care to about the Second IDA Replenishment, which I think was a difficult one.
KNAPP: You're certainly right, it was a difficult one. I remember this because I was the chairman of the meeting for that particular replenishment and had first of all to carry through the argument for the scale of the replenishment and, secondly, had to work out some solution for the position taken by the United States, which was that they were at that time in such serious balance-of-payments difficulties that any contribution that they made should be tied to the procurement of US exports.

On the matter of the scale of the contribution, I really don't think I can help you very much. Perhaps it is because I, myself, have always had a skeptical attitude about the numbers which people came up with — especially with numbers with respects to "needs" in heavy quotation marks. One could indeed estimate what might be forthcoming from bilateral or other sources, but, when it came to the aggregates, much of the numerology of these estimates of "needs" escaped me. So I can't help you much there.

OLIVER: May I interrupt to ask: We were talking earlier about the country requirements that developed from the five-year planning in the McNamara years. May I infer that you put a good deal more credence in those numbers?

KNAPP: No, wait a minute now. I'm expressing general skepticism with respect to the feasibility of estimating overall external capital needs. A much more meaningful and useful discussion which was conducted during these country review procedures was, given the resources available to the Bank and to IDA, how could they be most equitably and productively distributed among country lending programs?

Of course there were questions of country creditworthiness, which is the limiting factor. When it comes to overall estimates of needs, I always felt that a lot of these figures were rationalizations that people felt might be politically acceptable or practicable. In fact what you did, just to be cynical about it, you rationalized a figure which was double what you thought you could get and came down from there.

What I have more usefully to say is that we had a very interesting problem in the Second IDA Replenishment of how to give the US assurance that, at least in the early years, their money would only be used to pay for US exports. We persuaded the other contributors, of whom there were perhaps at that time something like fifteen, to permit calls on their contributions to be accelerated. If procurement in the US was insufficient to use up the US share in the early years, the other partners agreed that they would put up their money on an accelerated basis and to let the burden fall on the US only in the later years of the disbursement of the funds. Bear in mind that the commitment period for an IDA replenishment is three years — until the next replenishment, but the disbursement period runs out for 8, 10, 12 years. It was a bargain for the US to say, "we'll put up x percent of the money (I guess it was 40 percent of the money at that time), but if the actual US procurement is only 20 or 25 percent during the initial years, we'll put up only 20 or 25 percent of the actual funds required during that period, making up the balance at the end of
the line. This meant that the US, although purportedly putting up 40 percent of the contributions, was actually putting up, in terms of the present value of the sums, not much more than, say, 30 percent of the effective contributions.

OLIVER: Unless the value of the dollar was rising.

KNAPP: Yes, that's right.

OLIVER: Well, one last question about IDA replenishments. You talk in your conversation with Bob Asher about the various factors that were taken into account in determining how IDA funds might be divided amongst the possible recipients. I believe size of the population, per-capita income, the degree of poverty, the performance of the country, some favoring of smaller as opposed to larger countries, and, finally, filling the gaps that might be left after bilateral aid had been given. In that listing, I think you don't attempt any quantification, so I can't tell which of these are terribly important and which are of lesser importance. Can you add anything to that list?

KNAPP: Well, I would add, certainly, to that list the availability of opportunities to invest money productively. Some countries were never able, so to speak, to utilize the help they might have been eligible to receive from IDA because they couldn't present effective projects or programs to utilize those sums. I wouldn't try to rank the others in importance but would say that, in a sense, the idea of filling in the gaps in bilateral programs is an alternative to all the rest, and we abandoned that. I think we had to abandon that. It rested on the theory that, on the other criteria, we would conceive some ideal distribution of global assistance to a particular country, look at what the bilateral sources were doing them, and then fill in the balance. That is not an alternative to the other calculation. It would start with the other calculation and adjust our IDA contribution to that of the bilateral lenders. That was never a starter. One of the first reasons it was never a starter is that the bilateral lenders (the French wanted to help the French countries, the British wanted to help the British Commonwealth countries, the U. S. wanted to help whoever was their favorite country at the time) didn't want to see their efforts, so to speak, frustrated by having IDA adjust its program to what they were doing. We finally said we'll have to set the bilateral program aside and tailor our IDA allocations on the merits of the recipient countries. We'll deal with them the way we think would be the most rational way, the most fair and equitable way, bearing in mind the factors such as those that you've listed.

OLIVER: I take it that it would be very hard to find in the Bank an equation which one could use as a program for a computer out of which would come the exact amount that each country should receive for its IDA assistance.

KNAPP: That's right. We always had theoreticians who would come up giving weights to these different considerations and then grinding out (it wouldn't take a computer to do it, you could do it on an average calculator) formulas which would give you the IDA allocations. But we usually ended up with something more judgmental and more, I would say,
adjusted to the real world, and giving a little consideration in the end to how much the country was benefiting from other sources.

OLIVER: There is in the George Woods collection in the Columbia University Library under lock and key so that it can only be seen with the approval of the Archivist of the World Bank a long series of tables from about 1967, a table for each member country showing at least two pages of statistics starting with gross national product and going through many, many other statistical facts, some of which eventually appeared in the World Tables that the World Bank began to publish shortly after that. With each one of these there is an appraisal by a country economist which simply says, "Yes, I think that this country is a good bet for IDA funding," or "No, I think the creditworthiness of this country is in doubt," or "the political situation is difficult." I'm wondering whether these papers, which seem to be quite confidential, (at least in the eyes of the Columbia University Librarian) are the beginning of the sort of thing that we're now talking about. Would you guess?

KNAPP: Well, probably. I don't know exactly what these papers are, but probably. But that does prompt me to make the comment that when McNamara came into the Bank, he was appalled -- I couldn't overstate it -- he was appalled at the lack of statistical data available to the Bank with respect to its countries, with respect to its own operations in these countries, and with respect to the activities of other donors in these countries. When I in my early days of association with McNamara showed him what, in retrospect, can only be regarded as pitifully inadequate management tools in those areas, he just couldn't get over it. He very promptly instituted a series of statistical procedures -- first statistical data and then statistical manipulations of those data -- which came in the end almost to appall me. He was a statistical genius, of course, but numbers would take on a life of their own in his mind, numbers which were often of very doubtful accuracy; they were numbers that were sometimes produced for an occasion in the absence of any other numbers, and nobody could effectively challenge them. But I must say that the statistical data that were available during the Woods regime and came to be regarded in McNamara's day as incredibly primitive.

OLIVER: Well, I've kept you a very long time this afternoon. I think it's time to call a halt to this discussion. I surely want to thank you for this marvelous opportunity.