WORLD BANK HISTORY PROJECT

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Transcript of interview with

J. BURKE KNAPP

October 22, 1990; June 26, 1991; September 24 and 25, 1992; October 10, 1995
Washington, D.C.

Interview by: John Lewis, Richard Webb, Devesh Kapur
Session 1
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[Begin Tape 1, Side A]¹

KNAPP: As I say, I was in the group that was doing the first planning for the Fund [International Monetary Fund] and the Bank, and there were various meetings, preliminary meetings, especially with the British in Atlantic City. And I was then slated to become the secretary for Commission II. There were three commissions at Bretton Woods: number I was for the Fund, number II for the Bank, and number III for other miscellaneous issues, including in particular the liquidation of the BIS [Bank for International Settlements]--remember? There was a resolution passed at Bretton Woods condemning the BIS for its work with the enemy during the war and calling upon the member countries to dissolve it. It never got carried out. It was a stupid thing.

But anyway, I came that close to really--then I left to go into military government work. I came that close to really being one of the founders of the World Bank if I had been secretary of that Bank committee. A fellow named Frank Coe was the secretary of the Fund, and in time Arthur Smithies replaced me.

LEWIS: Oh, Arthur was an advisor of mine.

KNAPP: Is that right?

WEBB: And mine.

KNAPP: Oh, really? Well, Arthur Smithies replaced me as the secretary of the Bank committee.

LEWIS: He was chief economist of the fiscal division of the Budget [U.S. Bureau of the Budget] probably at that time, was he?

KNAPP: I don’t know.

LEWIS: I think so. He went to Harvard after that. He was not at Harvard yet at that point.

KNAPP: Well, all right, so here we are.

LEWIS: This is terrific. I scribbled out a few questions as possibilities for conversation, and they jump . . .

KNAPP: What are we allowing for time? I’ve got no time limit, particularly.

¹ Sessions 1–4 transcribed by Brookings Institution World Bank history project; original insertions are in [ ]. Insertions added by World Bank Group Archives are in italics in [ ]. Session 5 transcribed by World Bank Group Archives.

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LEWIS: Well, I’m going to have to peel off at about 4:15 to go get a train, but that’s an hour and a half, and if you’re going strong these two can stick with you. They’re not going to [inaudible]

KNAPP: And also we can--perhaps we can do another time.

LEWIS: Oh, I hope so.

KNAPP: I don’t get back to Washington very much.

LEWIS: All of us, by the way, have read your oral history—mine was a few, two or three months back, and I don’t remember precisely my—some of this may—but very interesting. That’s your second one. Richard was pointing out that you did an oral history back in ’61. You know that. Columbia has that. I haven’t read that, but [Edward S.] Mason and [Robert E.] Asher quote that.

KNAPP: You have it, do you?

WEBB: No, I saw the reference.

KNAPP: I think I have it; I think I have it. Well, let’s just look over these questions.

LEWIS: Maybe I should—just checking my scribbles—but at any rate, it occurred to us that you, as the vice-president, chairman of the Loan Committee, were really the chief operating officer of the Bank for a very long time, from 1956 or ’57, ’58 . . .

KNAPP: ’55 or ’56.

LEWIS: ’55 or ’56, okay. So this is a very long perspective from a high level. And the second point is that we think you were one of the comparatively few senior staffers who made the transition of successfully from [George D.] Woods to [Robert S.] McNamara.

KNAPP: No, I wouldn't put it that way. I would rather put it that when Woods came in—Woods was a very "prickly" guy—and a few people got counter, crossed wires with him at a very early stage, and he fired a couple of fellows, rather summarily, but that was only two out of where there might have been fifteen senior officers. And I think you would find that—and then some of these might have resigned. But I think you’d find that if there were fifteen top officers at the end of the [Eugene R.] Black era, that ten out of the fifteen would have been there under Woods.

LEWIS: Yeah, but I was thinking Woods to McNamara, that . . .

KNAPP: Oh, excuse me. From Woods—this is from Woods to McNamara. Oh no, no, no. The transition from Woods, the transition from Black to Woods was full of some strife and strain. The transfer from Woods to McNamara—I don’t know where you got such an idea because it was extraordinarily easy.

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LEWIS: Okay, no, we didn’t—-it isn’t while we searched at all—we just had happened to think—we talked to Dick [Richard H.] Demuth, and he did not make that transition. And we’ve heard a lot about Gerry [Gerald M.] Alter, who we haven’t talked to yet, but that didn’t work out. Didn’t his role decline?

KNAPP: It did.

LEWIS: Yeah.

KNAPP: But these were very exceptional cases.

LEWIS: These were exceptional cases, yeah, yeah.

KNAPP: I mean—let me say—am I on the record now?

LEWIS: Yeah, yeah, we can take it off if you want.

KNAPP: No, no. But I just I’d like to say a little more about McNamara taking over …

LEWIS: Yeah, please.

KNAPP: … because I remember very vividly the excitement there was of this rather extraordinary appointment--McNamara being known as such a (A) such a "brainy guy" and (B) such a kind of "dictatorial type." Putting all those things together, there was a lot of concern that he when he came in, he might want to bring in a kind of new team. Now I was already the senior vice president, so he just inherited me. As a matter of fact, I was the only senior vice president at that time (and then we had perhaps eight or ten other vice presidents—we didn’t have as many as are now in place). And there was just a lot of speculation about, well, would this guy would take over the existing team or would he really be bringing in a new team. He had this kind of "brain trust"—remember?--in the Pentagon, fellows like Charlie [Charles J.] Hitch and Alain Enthoven. So there was a lot of concern about that.

Well, McNamara, the first time he arrived, George Woods called a senior staff meeting, and that went down below the vice presidential level. That filled up our table; there might have been 25 or 30 people present. And he sat McNamara on his left, and I was next to McNamara. And Woods made a little speech of welcome, and he had asked me to—oh, and then Bob said a few words, not any great or memorable speeches. And then I was delegated, had been delegated by Woods to kind of respond for the staff, you see. So I responded for the staff. And again I don’t particularly remember what I said—it was in terms of, you know, welcome to our new chief and so on. But it wasn't what I said or what Woods said, but what McNamara said immediately poured a great kind of oil on the troubled sea because he was full of praise for the Bank; full of praise for the staff. He had done quite a little research—he didn’t talk about individual members, but he talked about accomplishments of the Bank and so on. And he said he was coming now, of course, from a totally different field, and it was just so marvelous to know he had this team. And the only person he brought with him was his secretary and although, within a very short time, he moved

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out Johnny [John D.] Miller, who was then the head of public affairs, you know, and replaced him with William Clark. So there was that appointment, William Clark’s appointment, but, you know, that was a marginal change in staff as a whole.

LEWIS: There was a treasurer—McNamara told us about . . .

KNAPP: Yes, I suppose he left . . .

LEWIS: . . a loan issue, a sale--something didn’t sell well in Switzerland, I think it was or bond issue.

KNAPP: I don’t remember the details.

LEWIS: He was very exercised about that.

KNAPP: Yeah. Well, the treasurer, that’s probably right. But, I still would say--that's a little bit more than marginal, those two positions--but it's still pretty marginal. The main team went on. All right--let’s see now, then he brought in a little bit later Irving Friedman. But I still don’t think of it as anything like a major . . .

LEWIS: Then he brought in Hollis Chenery. That was . . .

KNAPP: Well, wait a minute. Oh yes, oh yes. Wait a minute. Irving was--that’s right. Irving was there under Woods, George Woods. He brought in Hollis Chenery, exactly.

LEWIS: And Hollis brought Ernest Stern [inaudible]

KNAPP: [apparently reading from list of questions] “What about the money pushing complaint?”

LEWIS: That, you know, is a familiar sort of theme.

KNAPP: Let me just run through these. [inaudible] “Stern. Shift toward anti-poverty.”

LEWIS: So we sort of think one shift occurred in the ‘70s in this direction and there was the--obviously the policy-based lending sort of initiative, structural adjustment coming on just about at the end of your time . .

KNAPP: We had been doing some of this.

“Coming of new policy program, end of emphasis, structural”—what do you mean end of emphasis, structural adjustment?

LEWIS: New policy, program lending emphasis, structural adjustment—all those were that emphasis. Then this only one question. It is a kind of scattershot of--YPs [young professionals] coming up into management positions, whether you have any sort of sense. We hear, get some feelings or comments about that right now. And
then there’s the relations with the U.S. government which you certainly had a good taste of.

**KNAPP:** Well, yes, some, although I deliberately kept out of that relationship as much as possible.

**LEWIS:** Well, we’d like to hear you talk about that.

**KNAPP:** Well, do you want to go down the list?

**LEWIS:** Yes, whichever—yes, I think so, might as well.

**KNAPP:** I mean, I don’t find any of these particularly, you know—that I feel I can make any outstanding contribution, but I think I can talk about all of them.

**LEWIS:** Let’s go ahead.

**KNAPP:** Well, on this first one, yeah. When I first became chairman of the Loan Committee, and that was in connection with the reorganization that took place in about ’55-’56, there were three vice presidents named: I was cooperation, Dave [Davidson] Sommers was for legal, and Bill [William A. B.] Iliff, Sir William Iliff, was for special assignments, and the thing that he was working most on at that time was the Indus Basin. It took years of full time work.

So we organized this Loan Committee. That was the first time the Bank had been organized on regional lines with departments. They weren’t called vice presidencies, but there was a department for Western Hemisphere and a department for Africa and Asia and so on. The Loan Committee was set up consisting of the heads of each of the regional departments plus the legal advisor and the economic advisor. The thing to note about that is that each area department was sitting in judgment upon other area departments. At a later stage, when we had another reorganization—I suppose this was in . .

**LEWIS:** ’72, maybe.

**KNAPP:** . . ‘72, was that the—yeah. That pattern was changed, and thereafter the Loan Committee consisted of --the representation only of the vice president (as they were by that time) from the area concerned. But we still had the outside legal advisor, economic advisor. Dick Demuth was always on the Loan Committee, too, in a more or less kind of personal way, representing his area of work. And, well, and then, of course we always had the--as a member of the Loan Committee, the head of the Projects Department. And that Projects Department was at that time a very important independent department; we had what we called the checks and balances between the "eager beaver" loan departments and the Projects Department. And a large part of the function of the Loan Committee turned out to be to mediate or arbitrate issues between the two, whereas the loan departments would come up with a project but the Projects Department would say, “Well, we can only approve it on these and these conditions.” And usually they would be imposing harsher conditions than the loan
department wanted to. So the main function of the Loan Committee was to reconcile such differences, arbitrate such differences.

Now it should also be borne in mind that from the very beginning the Loan Committee was advisory to the chairman; it didn’t vote, didn’t take a vote. I made the decision after hearing all the views. In that sense it was a very powerful position. That role had been established by the fellow who preceded me as chairman of the Loan Committee, Bob [Robert L.] Garner. And Bob was a very strong-willed and strong-minded fellow, and that’s the way he set it up and it always continued that way. So we never had a vote, and sometimes I would have to rule against the majority!

LEWIS: I see. Just like Abe Lincoln.

KNAPP: Well, I think it might be interesting to note that the presidents never—I think never—attended Loan Committee meetings, although it was also clear that the president had a veto. And I would always report the results of a Loan Committee meeting to the president and ask his approval. And I don't think I can remember a case where he vetoed it, although I think there were cases where I would adjourn a Loan Committee meeting because of a bitter argument, and usually it would be in this project versus loan, you know. And I would adjourn the meeting and go and consult the president before I came to my decision. In other words, I would take his guidance if he had any. But that would be in very rare cases.

LEWIS: Otherwise you would make your decision right away?

KNAPP: Yes, oh yes.

LEWIS: At the meeting itself?

KNAPP: Yeah, yes. I would say 99% of the time. We might adjourn to get more information on this or I would suspend in order to consult the president.

But now when Bob came in, and Bob maintained this relationship with me for the whole period, he said, "Burke, I look to you to run this Loan Committee.” He said, “You—I'll deal with the fundraising and the relations with the U.S. government. I will deal with the allocation of money, I will deal with—I will want to be,” and he said, “I’ll deal, I mean,” he said, “I want to make the final decisions on country creditworthiness, on the allocation of IDA [International Development Association] funds. But,” he said, “as far as the operations”—and at that time it was mostly project operations—“are concerned,” he said, “you run it. I have great confidence in you and in the staff and you run it." Now that still didn't mean that I wouldn't, on some real tough issues, adjourn the meeting and go consult him, but his degree of delegation of the actual operations was very, very great.

Well, as I say, we used to talk a lot about country creditworthiness. Nobody talks any more about country creditworthiness. We do talk about allocations and the allocation of IDA funds, which was always a very touchy subject. Shall I say a word about that?

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LEWIS: Yeah, please do.

KNAPP: Because this wasn't Loan Committee business, but it was often pretty much the same group. And I was the chairman of the—we didn’t have a formal committee, even, but we would have recommendations coming from the regions and from the economics staff with respect to the allocation of IDA funds. And then I would chair meetings where we would try to establish our priorities and end up with an actual--this would be an annual kind of event, allocate the—we always had pretty much, a pretty clear figure, a quota for each fiscal year. And the question would be how that should be allocated, and all the considerations of poverty and population and country performance and availability of projects for financing—which sometimes was a limiting factor on what you might otherwise have done.

And there was always the big and disturbing question of what the hell you do about India—India, Pakistan and Bangladesh, but primarily India, and of course there the population was so overwhelming and yet, and yet you had to have a sense that you had to draw the line somewhere. We pretty much arbitrarily drew the line at 40%. And that figure of 40% in the early days of IDA was a kind of a sacrosanct figure in two senses. First, the U.S. said no single country should give more than 40% of the IDA funds, and that's how their 40% of quota in IDA got established in the first instance. And then we were saying, well, no country should receive more than 40% of IDA funds. There was a certain symmetry.

And then as, of course, Pakistan—at the time that Pakistan was a single country, that was a vexing question. And then when Pakistan and Bangladesh became separate countries, of course . . .

LEWIS: I think they got 15, I think, was it, out of 40?

KNAPP: Something like that.

LEWIS: I think so.

KNAPP: So these reviews of country creditworthiness which were done in the—reviews of country creditworthiness in the first instance were done in the Loan Committee but those were always subject to periodic reviews at the level of the president. And the president usually would call a meeting to discuss both—to discuss the allocation of Bank funds. The allocation of IDA funds—I never, I don’t believe, went beyond--I would be in touch with McNamara (I’m talking mostly about McNamara now because the period we’re talking about is mostly the McNamara period). I would finally consult him but—well, I would consult him during the process, but so officially, I was supposed to do the IDA allocation, but actually he held, he [McNamara] had a great voice in that.

LEWIS: I want to go back to this project pushing thing, but before--you reminded me of a sort of interesting question: the role of the President and yourself in terms of allocations to countries [in light of Lewis’s OED [Operations Evaluation Department] review of Pakistan and the World Bank, the Bank’s later increased role in Pakistan arising from Knapp’s meeting with McNamara]. And this arises out of a review I did

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for, I led for OED of Pakistan. We looked at the history of the Bank in Pakistan for twenty-five years and that’s the only time, up until now, that I had a chance to look at the CSP [country strategy paper] kind of paper. And I remember being quite struck, I thought, in the middle ‘70s, [Zulfikar Ali] Bhutto was in office. He had come in with a populist program that made him sound superficially sort of like McNamara talking about poverty and basic needs, but in fact he was the—he was regarded as a perpetrator [inaudible] of what had been done to Bangladesh. And also his macroeconomics were very objectionable to the Bank at that time. And I—that they were pretty loose, that they were [inaudible] inflationary. And as I read that documentation—this is not the CSP itself but rather after that’s written, you and McNamara, maybe the vice president for South Asia but not much of anybody else, as far as I could tell, met and had a little discussion about the case of Pakistan. And it looks as if you and McNamara say that, “This country has not been doing very well in sort of an overall sense; we’re going to put a ceiling on it, and we won’t increase our exposure next year.”

KNAPP: Well, let me tell you about those meetings because that was a different kind of a meeting chaired by the president. These were to review the country program papers. You had CSP . . .

LEWIS: Country . . .

KAPUR: They were CPPs [country program papers] and they became CSPs later.

LEWIS: Country program papers.

KNAPP: Country program papers; that’s the one I remember. Each department was charged each year for bringing up a country program paper. And those were cycled during the year. And I think we probably had a meeting—sometimes, you know, for little African principalities you didn’t bother to have such a meeting. Oh, I know; that’s right—there was a division of labor for the review of country program papers. I would take--Bob would take about thirty, thirty countries, which pared you down [inaudible] He wanted to do most of the big ones and the rest he would delegate to me. But his meetings were for the major countries and for the great bulk of the lending program. And he would chair these meetings, and I would be there, the regional vice president, the economic advisor, I guess then a legal advisor—anyway, not much of a different group from the Loan Committee but meeting only with the regional vice president of the country concerned. And the regional vice president would make his presentation and then uniformly--it got to be kind of a joke with everybody—he’d turn to me and he’d say, "Well, Burke, what do you say?" So I’d make my speech—well, I had the advantage (and it was an advantage) of being the first to speak and sort of lay it out. And after that it was a question of whether Bob agreed with me or his position was modified by others around the table. And maybe half the time he would just buy my view. Another half of the time he would either be influenced by some other view being presented or would just have his own view. Now, this review would be a review of country creditworthiness, it was a Bank lending operation, not much on IDA—IDA allocations would have been pretty much fixed, and the presentation would have been the limits established by the IDA allocation. But country creditworthiness. And then, and what was usually Bob's main

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contribution, would be the balance of the program by sector. There would be a lot of
discussion about, you know, should you go on lending in the utilities field or should
you get into something of a more poverty orientation, agriculture, education. And it
was on the sector distribution, I would say, that Bob most often sort of had his own
views. And in those meetings, which would not be very long or exhaustive
meetings—they would last maybe an hour and with half a dozen participants they
didn’t—I used to try to talk for five minutes to kick the thing off—and it was mainly
there on the sector distribution that Bob would often weigh in.

LEWIS: Let’s go back to this question of what we called here "money-pushing." I
understand what you’re saying, that the Loan Committee as you chaired it, you had
this tension between the loan department and the project people sort of trying to be
technically cautious and sound. But then McNamara--certainly did when he came in--
wanted to raise the total activity level very rapidly, didn’t he? And so he began to set
targets for—and we hear, you know, that complaint is fairly widespread or criticism,
maybe it was more in retrospect than at the time, but that this had an adverse effect on
quality of projects in some cases. I wonder how much that was an issue as you . . .

KNAPP: Okay, well let me take that one from Bob's inaugural speech when he came
in. He came in in June, I guess, and his inaugural speech was in September, so a lot
of the time between June and September we were all working and advising on his
speech although most of his speeches in the end were very personal products of his
own. But there came this question of what should he announce as lending targets for
the next five years. Well, we’d never had lending targets. We were--our lending the
year before he came in would have been approximately a billion dollars for the Bank
(I am not talking about IDA now, but about the Bank). And Bob wanted to say in his
speech that within, I think it was within two years he wanted to double the lending
level of the Bank with some implication--it was a five year view, but with some
implication that there would be perhaps further increases beyond that.

And I strongly argued with him about it and opposed this idea of enunciating targets,
and said, you know--my line was, "Well, if we could find the money, and if we can
find creditworthy countries with satisfactory projects, let's double or triple it. And
let's take on more staff than we have.” I said, “Our staff is not capable at the present
level of mounting that size of a program; let’s take on the staff. But,” I said, “please
don't enunciate targets like that." And my main argument with him was that if we did
enunciate targets like that, that countries, knowing pretty well what the division of the
pot was and their share would be, would kind of take these targets as promises and
would put our—would restrict and hamper our negotiating position, would weaken
our negotiating position because countries would take if for granted they were going
to get this money and that we would cut our conditions to fit. Well, I didn't succeed.

He said, “Burke, I’m going to say it. I want to say it. I’ve got to say it. That’s the
way I feel.” So he did. And so each—and then he got in this business of global
targets, see.

And I was always reluctant and always on the grounds that I’ve described, to say,
“God, let’s do it if we can, but let’s not hold it out there as a promise.” Well, that was
in respect to global targets.

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Then with respect to country targets, that was a little bit easier because Bob himself realized that he didn't want to set country targets for countries with weak economic performance or weak project—record of project preparation. In other words, he understood that there you didn't want to get in a position where you’d promise a country 500 million dollars over the next year or so. But he still would lean toward doing that. He wouldn't in a public speech and so on say it, but he would, in talking to the visiting minister of finance, he would say, “Well, okay now, we expect to lend you 500 million dollars in the next two fiscal years. Now, of course, that all depends on your economic performance, projects and so on.” But he tended to give big emphasis to the first figure.

LEWIS: And that would play back in the local press . . .

KNAPP: Well, that’s right. The way it got back in the local press was "World Bank president . . ." So I would say that I was always—although there he would, he would, you know, nominally enter into the equation the restrictive covenants about having to do this or that, but I would always feel that he was out too far in front in laying out particular figures.

Now then you come to the effect of all this on the staff.

LEWIS: Yeah, yeah, exactly.

KNAPP: And when Bob would say to the visiting minister of finance "we expect to lend you 500 million in the next two years," then he would, in his mind—you know, understanding there were these limitations, creditworthiness, project availability--but in his mind he would think of that as almost a “done deal” and he would look to the department to come up with this.

We had endless discussions about this issue that you mention, about targets versus quality. And Bob, of course, would always say and pound the table and look at the regional vice president square in the eye and say, "Look, understand me, we want to do this much, but not at the sacrifice of quality." But I think quality did suffer from some of these financial commitments. Now when I say quality, what do I mean “quality”? Well, I mean “quality” both in terms of over-lending to a country, “quality” in the sense of quality of creditworthiness and “quality” in the sense of projects and project conditions. Although I don’t think I ever had it happen that if I were—if I went to Bob and said, “We’ve had a Loan Committee on this and we’re going to reject this loan because they don’t meet—we think they ought to reorganize their port authority or they ought to raise fees or something, and we’re not going to make the loan unless they comport with those conditions,” I don't think he ever overruled me on that. But all of us, including myself, were under some pressure to get reach targets.

LEWIS: I’m sure you were. Were there regional vice presidents or down management people, I mean, would staff leaders down the line, sometimes, who would stand up and resist sort of?

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KNAPP: The project people? Now mind you, I talked about this, projects and lending offices. Now after the reorganization—was it ’72 or a little later in the ’70s?

KAPUR: The reorganization? ’72.

KNAPP: The McKenzie and Company reorganization. All right.

Well, after ’72 we did reorganize the setup, and instead of having five lending departments and a project department, central project department, which was the simple case where I would arbitrate between project department and the other departments. The project work was infused into each of the five regional departments; they each had their own projects department. The remaining central project department, to set standards and do research and handle a few things that weren’t of such size that they could be chopped into five regional departments (like telecommunications, for a long time) was in the central department. From then on, the primary projects lending/reconciliation was done by the regional vice president at the regional level, although there was always a final review of that in the Loan Committee, and we would sometimes overrule the regional vice president’s decision.

Well, that was just an aside about organization. [returning to Lewis’ question] But oh, well, what I was saying that Bob—I could never say, I don’t think it ever happened that he would overrule a decision by the Loan Committee not to grant a loan. But what all of us, including the chairman of the Loan Committee, sensed the pressure.

LEWIS: Were there any people who got sort of cross-wise of him?

KNAPP: Oh, well, yes, down at the level in the projects departments, now, as I say, in the regional offices, yes, sometimes you would get howls that we were—you know, there’s always—it’s always very, very difficult to make these decisions on conditionality, you know. I mean, obviously there’re always very gray areas. At what point do you want to insist on a reorganization of the entity which is carrying out this project? At what point do you want to put your foot down and say they’ve got increase rates or whatever the issue might be? Some of the issues had to do with the actual engineering feasibility and practicality—you’re building a great dam in an earthquake zone—the risks being taken and how to protect against it and if you can’t protect against it adequately, you shouldn’t carry the project forward. So these things were sometimes at least stuck in a very grey area.

So it was always possible to argue—well, let’s take this rates issue because that was a very—all through the utilities and infrastructure area this rates question runs, whether it is railways or electric utilities, water companies, telecommunications. And of course we were always arguing that rates should be fixed at a level that would yield a rate of return that would build up the capital resources of the institution and enable it to finance at least the local currency costs of fresh investments. Develop a milk cow and expand. And most of these services, bear in mind, were expanding at the rate of 8 to 10 % per annum, sometimes higher. But even at 10 % per annum, it doubled in seven years, the consumption. So there was always a huge investment program confronting any of these institutions.

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And we, looking back on it in a self-satisfied way, would often say, and I think largely with great justice, that the greatest service we performed to this country in building their electricity industry was not lending them money to buy generators but in forcing them to institute, on the one hand, an economic administration, saving costs and so on, and on the other hand generating revenues that would be adequate to service their investments and provide capital for fresh investments.

Well, you could always, you see--the argument would always be about timing. And this ridiculous argument, however ridiculous seemed always to a lot of people persuasive, that you are having an inflation and therefore you can't add more to the inflation by raising utility rates. I mean, do you—and of course at the time when the main [inaudible] of the inflation was the subsidies being paid to these agencies by their governments, who would be failing to cover them by revenues, inflating in order to cover those costs. But the argument would be, "Well, you know, we have to seek a better time." Now this would often have a political twist. "This government is a good government. They are trying to do their best, their heart's in the right place. Not only in this field of, let's say, utility development, but they're doing a great job in education and development of agriculture, and we don't want to see them--if you raise the rates at this time there will be such a revulsion that they'll be driven out of power." So you got that kind of political [inaudible] Or just the argument of timing, saying, “We'll need more time, give them more--instead of carrying out this rate increase over a period 18 months, which we might have stipulated, let's give them three years.” All kinds of compromises. So, people could have different views, and they're very firmly held views.

But now getting back to this--it came out of the discussion of the quantity of lending—you know, and again I find I am almost talking entirely about McNamara, but McNamara's quantitative view of things is very well known, always has been. I mean, he is—I am not going to say for the record anything about Vietnam, but he is terribly quantitatively-minded. And to him, it was just very natural to quantify lending goals, to quantify borrowing goals, quantify staff numbers, almost everything in sight came up for quantification. He, for example—and I think this is great--he did more for cost-accounting for the Bank, determining the cost of our services rendered, what charges should be made, he did more than—before him, there was very little attention paid to the subject. But there he would try to quantify, see: “What is the value of sending out missions, pre-project missions?” You're going to send out—one theory of the Bank in the early days was, “Let them bring us projects; that's [inaudible] projects. We'll review them.” Then we began to grow and we thought, “Well, gee, these countries, many of them are just not competent to produce projects. They need assistance.” And then we’d say, “Well, we’ll give them some technical assistance.” But then we’d get more than that, and we’d send out pre-project missions. Pre-project missions, essentially, were missions to pitch in with the government and develop feasibility studies of projects. But anyway Bob would want to try to quantify: “How much did we spend last year on pre-project missions? How much was the—what did that lead to in the way of additional lending?” And you can get pretty esoteric at this kind of research . .

**LEWIS:** You could.

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KNAPP: . . and especially when you have multi-purpose missions where you are trying to allocate this among the—this cost for this function. But yes, Bob was very quantitative minded.

LEWIS: This quantification is all on the operations side. Was he equally interested in finance, I mean in raising money?

KNAPP: Sure. Oh, sure. You see, on the money raising side, Bob's influence and the degree to which he exercised his authority, say, was I’d say much more than on the lending side. I mean, once you’d set the top parameters, the project parameters, the IDA allocation, he was very much personally concerned and in charge of borrowing operations. He would try to have a five-year forward borrowing program, lay out what markets you were going to try to buy X amount of currencies in over a period of years.

I haven’t mentioned before, perhaps, in connection with this—let’s go back to the lending side a minute--the fixing of targets was not for just a year: five year forward-rolling programs, five year programs. And he would insist also on those five year programs being broken down by sector, although at this point in time really nobody had pretty much idea what kind of projects might be available in the fifth year. So as you went out, the sector distribution—although he would insist it being quantified with no fuzzy edges—7% would be for education. By the time you got out there you either had 2% or 20% for education, but anyway that didn’t worry him. Going out five years made the figures pretty fuzzy. He wanted a figure on it.

LEWIS: You remind me of a tough question—we’ve only interviewed him once so far. And I think the most surprising thing about the interview for me—and I think the others—was that he said when he arrived in 1968 with this five year sort of scheme, five year planning scheme. And he told how he sort of bullied that through the Board and said, “If you don’t agree by Monday morning you’re going to get yourself a new president,” or something like that. And he also—as he talked about it, this period of the first two or three, four or five months he was in office was an enormous learning experience, as you say, but he had arrived having done a lot of homework, and I heard him say in effect that he had the whole design of the program for the next twelve years practically in mind, at the end of this structure, including structural adjustment lending. That’s a little exaggeration, isn’t it?

KNAPP: Oh, I don't believe that. I just don’t believe that at all! We’ll come to talk about structural adjustment lending here in a minute, but I just don’t believe that at all. I mean, you know I don’t say he’s—his memory is—twelve years, you know. Twelve years.

LEWIS: The whole—including the anti-poverty stuff. He had that all in mind in ’68, the basic needs?

KNAPP: I’m sure he did. I’m sure he did.

[End Tape 1, Side A]
KNAPP: Don’t think the poverty thing all began with McNamara. I mean, my gosh, we were very alive to the problems of poverty and—when I say that, let me make this distinction. See, I started out this work, well, I started out in 1950 when I came back from, sorry, ’53 . . .

LEWIS: When you came back from Brazil.

KNAPP: . . . when I came back from Brazil. And I do think that at that point when I came back we were still pretty much a bank for infrastructure and a bank for big projects. And sure, poverty always lay—you know, after all, the whole purpose for the development of infrastructure was to encourage the development of productive capacity to raise living standards, to lift people out of poverty. But there was no sense at that time of direct attack on poverty, but it did begin to develop, certainly long before Bob came in ’68. I mean, during the ‘60s George Woods was, used to speak very eloquently about poverty problems. And it was he who—in the field of agriculture, up to the time that George Woods came in, the main agricultural investment had been in either big public works, irrigation and land reclamation schemes, but essentially the area, the whole concentration was on the infrastructure and the efficiency of that infrastructure and, on the other hand, high level sort of plantation development in Africa, livestock development with wealthy ranchers in Mexico. And it was George, as I remember it, who began our orientation of agricultural lending towards small farmers. And we began to get into small farmer credits and extension services and supply functions and that and so on. But Bob certainly did pick that up and gave it new emphasis. And really just from his—shall I call them “stump speeches”?—gave a high charge to the staff and to the countries. It was perhaps most important to get the countries to think about that.

It was a little bit of an egg and chicken thing here. The countries thought of the World Bank as a place to finance big projects and that’s what they brought to us. You had to go out to the countries and get them in the first instance to endorse the idea of a new agricultural credit program or a new agricultural extension program or agricultural training colleges and training schemes. Either they didn’t have that much interest in it at the time or, even if they had the interest, they just didn’t think of the World Bank as a place to go. And, you know, from their point of view, money being fungible, if they were going to get 500 million dollars out of the World Bank, often they would just figure what’s the easiest way to get 500 million dollars. And the easiest way is to create massive great projects. And that was where I think—I don’t think George Woods really cared that much beyond—he was favoring and all that, but it was Bob who would say to the countries concerned, “Look, you’ve gotta rethink your priorities, and you gotta rethink what you ought to be doing to . . .”

I mean, for example, take the urban site and services project. I mean, I think we in the Bank, and I think Bob was heavily involved in it--it might not have been done but for him—he was the fellow who said, “We want to get into the cities, into the poverty, ghettos, and, you know, the shanty towns and things”—you know, what do they call them in Brazil?

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LEWIS: Barrios?

KNAPP: That kind of thing.

WEBB: Favelas.

KNAPP: Favelas, that’s what they are. But it had to be—it wasn’t just that we could suddenly decide to start lending for these things; we had to convince the country concerned (A) that they needed them, and (B) that they could—there was an open door they could push open to the World Bank.

I think still now, still there might have been some countries—I can't cite evidence for this—but I would say undoubtedly there were some countries who said, "Look, why should we go through all these hoops to design a new agricultural extension service to get some money out of the World Bank? Our credit there is so much. Let's get it, let's design our approach to the World Bank to concentrate on those things where massive money moves. We don't want a 5 million agricultural extension project, we want a 50 million”—or these days 500 million—“project for developing electricity!"

LEWIS: And did the local cost financing make much of a difference in that?

KNAPP: Yes, well, in this sense that usually this agriculture—usually, it’s almost, I think, a function one of the other, that the more you go toward poverty-oriented projects, the more you go toward local currency financing. But we kinda got over our, mostly got over our prejudices about local currency financing at a fairly early stage, fairly early stage of the period we’re talking about. But there Bob, I’m sure, would say—I can’t remember him saying it this way, but I’m sure he would say, “Look, for Christ’s sake, if this is higher priority for poverty, forget about the fact there’s a higher proportion of local currency. We’ll have to finance in local currency expenditures.” He was never wedded to that particular theology.

LEWIS: And that was also a way around the resistance to program lending, wasn’t it?

KNAPP: Well, program lending—let's talk about that a little bit. In the first place, we got into non-project lending fairly early on—I would say in the mid-'60s—in India, you know, where we began making loans for imports. The theory was that India didn't need any more capital investment; they had such a desperate foreign exchange shortage that they needed to import the current requirements, the spare parts . .

LEWIS: Raw materials, spare parts.

KNAPP: . . raw materials, spare parts, exactly, to activate their existing industrial capacity. That was a pretty appealing kind of argument, and the Indians made it very, very vigorously. So we started in India with these sort of non-project imports loans.

Now they were not policy-based loans, let's say. They were--all lending—you see, I resist this idea of saying that policy-based lending came with the policy-based loans. I mean, all lending--I've talked some about our insistence about policy conditions; I've
been talking about them at the project level. But that didn't mean they didn't exist at the macroeconomic level. But in our minds at the time, if we'd been asked, we would have said, “Well, it was this creditworthiness question. A country isn't going to be creditworthy if it is following an unsound fiscal policy or excessive inflation or whatever.” And it became kind of--we didn't call them "adjustment" loans, but loans were rejected.

This was often the case in Brazil. There would be periods in Brazil of the suspension of lending activities for a year or so because of our dissatisfaction with macroeconomic management. And the way we explained it was in terms of this—explained it to Brazilians--is, "This undermines your creditworthiness, not only with us but with the markets," and so on.

All right, well, that's sort of an aside.

But we did then begin to get into more--outside of India; India was the only country, then came Pakistan, and they were the only two countries for, as I recall it, for quite awhile. Then we began, very gradually, to get into the financing of general import loans, and again, very gradually, into the area of imposing special policy conditions on those loans. Let me see, what did we do kind of before we ever went to the Board and called them structural adjustments and formalized the practice? I’m sure there were other cases outside the Indian subcontinent, but it was certainly mainly there. I think in the case of agriculture, we began to finance not just tractors and trucks (you know, physical equipment), but began to finance fertilizer imports. We called these kind of "capital requirements," which, of course, they were in a sense. But now let me see--where did--we certainly did some other lending on a kind of experimental basis.

And then—and now mind you, I might say that I was always very conservative on this issue. I think I still am conservative on this issue, as I look back on the history of structural adjustment lending. But roughly speaking, these non-project loans were constituting like 5% of our lending at that time that—in this push to expand in so-called structural adjustment, structural adjustment and sector loans. Now on the sector loans, sometimes they were kind of a combination of both capital investment and some investment for either undetermined purposes or for financing current requirements rather than capital requirements. But anyway, there came this push.

Now, let me explain to you one of the reasons for my kind of basic skepticism. I found, in dealing with the countries, the reason they wanted structural adjustment loans was because they were quick disbursing. And they wanted quick disbursements because they were beginning to get loaded up with debt service. And then, on the project loans, the disbursements were only made over quite a period of time and they went for actual identified import needs or local currency, but let’s say for expenses, whereas the structural adjustment loans provided a vehicle for getting "free money," free of tied to particular purchases. Usually in these structural adjustment loans, as you know, there’s only a negative list; they can be used to import any imports except ferris wheels or roulette wheels, so there are practical limitations on it. And it becomes free foreign exchange and they can call on this to repay their debts, and not their debts to the Bank, particularly, but their debts to others, I mean, because this

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already was getting into the period when they were piling up these commercial banking debts. So I just didn’t—the flavor of that never appealed to me, to have countries say, “Well, the only reason we want that kind of a loan is because it’s quick disbursing and we can use it to meet debt service.”

Now, on the other hand, of course, the argument was, well, that we can—let me use two phrases. The first is, “We can ‘buy’ a country’s adherence to sound policy by making a loan,” I mean, almost a bribe, so to speak, or, to put it more politely now, “We can help a country make the balance of payments impact of a sound policy by lending it foreign exchange.” If the sound policy consists, for example—I mean, the clearest case would to, say, reducing tariff barriers, making your local industry more competitive, introducing that is going to cause a sudden burden on the balance of payments because initially, at least, imports are expanding and we can compensate for that by structural adjustment loans.

But it seems to me that at least in some of the—well, most of the African so-called structural adjustment loans have been just to say, “We’re desperate. We’ve been arguing with these people for years about following sounder policies. Nothing happens. Maybe if we bribe them to do it though a loan, they will be prepared, at least for a time, to live up to these conditions.” And there you get into the argument, “Well, maybe it's worth bribing them if it's really going to convert them.” But, of course, if it really doesn't convert them and they only follow these new sound policies because they've been bribed to do it, they don't really believe in it, and they'll abandon it as soon as the loan is disbursed, then that's a different story.

LEWIS: Let me ask—I’ve written about this.

KNAPP: I’m sure you have.

LEWIS: And I’ve attributed a kind of a psychology to some decision-makers in the Bank—and I’ll try it out on you because you clearly were sort of a critic of this trend—and I pin it on my oldest and closest friend in the Bank, Ernie Stern, that you had this institution that was building up a tremendous analytical capacity during the ’70s; it knew more and more about what right policies were, I mean, itself, it really had some good work, advice to hand out, if people just listened. But it got the notion—I myself had it very strongly in South Asia—that project loans are not very good vehicles really for this kind of general macro-policy advice because you are trying to carry too much other baggage with the project on the project side, you know. And so when the second oil shock came and there was this need for quick, fast-dispersing money, that these two things went together, that here was really an opportunity, an outlet for getting, for buying a place at the policy table in effect and getting your policy advice listened to. Do you think this happened?

KNAPP: Oh, sure. Oh, sure. In fact, I think that’s really—I used the word “bribing,” but “buy your place at the policy table” is a very good way of putting it. But I would say still that if it only means you’re buying a period of improved performance, yielded very reluctantly and really only because they are so eager to get the money from the loan and not because of any conviction, that then that game isn’t worth the candle. If, however, by buying that amount of time and using that period of improving performance...

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time for education, and they see the happy results of following the new policy guidelines and directives, and that they are then converted to it, fine! Then it’s been great; then it’s been successful, sure. But, I wonder, I wonder. Now there have been some studies, there are some continuing studies going on in the Bank about the, you know, appraisals, evaluations of performance under structural adjustment loans. The record is very uneven. It’s probably too early to . . .

**LEWIS:** There’s a lot of literature, OED and others. And also economic research [inaudible] It’s a mixed story, there’s no question.

**KNAPP:** Now, of course the old-timers like me who have been so committed to project approach, we would also sort of say, ”Well, okay, granted that you can do that kind of policy-based structural adjustment lending, but that's going to be at the sacrifice of the project lending over here, you can’t--no free lunch, and you are going to lose that much development of infrastructure and industry and agriculture over here.”

To which Bob, if an argument was made like that, and I remember hearing myself make it, would say, "Oh, that's all right, we're going to expand! We’re going to expand! We’re [inaudible] what we’ve been doing. We can add this. Don’t worry about sacrificing anything."

Well, of course, that’s an argument that goes as far as it goes. But my response would be, “Well, if you can expand, there’s plenty to do over here.”

Project lending did carry with it and does carry with it still so much technical assistance and institution building and development of a country's long-term infrastructure and productive capacity, and I just--usually end up on the side of saying, ”Well, all right, structural adjustment loans, but just keep it to”--you know, I would--5% in my day and now it's gone up sometimes to 20, 25%, “I'd say keep it to 10%.” But I think maybe it's gone overboard, particularly in these African loans where I have no confidence the African governments are living up to their obligations.

**WEBB:** You said at one point that quality did suffer. Would you say that—coming to the business about influencing, the Bank [inaudible] advice, do you think that’s one of the ways, one of the things that suffered, that this in effect, the Bank really undercut itself as an advisor?

**KNAPP:** Yeah, maybe, yeah. Of course when I said quality had suffered, I was thinking in terms of both credit-worthy conditions--credit-worthy conditions and project and sector conditions. And I think the way in which quality suffered was that you just didn’t quite put the same amount of energy and stress on conditionality in those areas than you probably should have. And so you achieved higher lending targets, but not with the same input that I was just emphasizing on the project side of institution-building, standards and the like.

But let me comment, because you might have asked me this question: what about staff? Didn’t staff--and promotion of staff and rewards for staff and all that--didn't people just get rewarded for producing higher and higher lending levels? And the
funny thing on that--I honestly don't know what the answer to that is. I can tell you that it came up time after time after time. And Bob and I would always hammer the table and say, “A loan officer is responsible for doing his job at his maximum efficiency. Whether that produces more loans or less loans depends upon not him, but the outside world.” I mean, if you are dealing with Brazil, say, the loan officer on Brazil will--we would say, you see—is going be rewarded for the quality of the job that he does, and that quality may be expanding loans and finding new opportunities for loans and all that sort of thing, but it may also be denying loans for the right reasons, you know, and so on. So that would always be said, but if you asked me who in the end, you know, really got—who were the bright boys, I'd have to say that the bright boys, particularly in McNamara’s eyes, were those that produced the volume. I mean, it's almost inevitable. But I think it was—let’s put it this way: I think it was just because Bob recognized that it was inevitable that he would fight so hard against it! "No! No! Quality is the first thing!"

LEWIS: Yeah, I can just hear it.

WEBB: How could you really tell—it must be very hard to see if loan officers are doing the right thing by denying loans? You can see when he pushes through a loan, but whether he has done the right thing by denying a loan--what kind of measures did you have to judge the fellow?

KAPUR: [inaudible] quality in the sense that if you were given a loan, then by the time the results really come in, 5, 7, 8 years down the road and by that time, of course, the person had probably transferred at least once, so it's very difficult to sort of see the results.

KNAPP: Yeah, that’s true.

KAPUR: So wouldn't that sort of make a difference in the way staff would perceive incentives?

KNAPP: Yeah, yeah, I think that's right, because what you're saying is that you might even not be able to judge appropriately the quality of the loan for several years, and by that time all kinds of other things have happened, including the fact that his loan officer is off in a different part of the Bank in a different function.

Of course, you see, after the '72 reorganization, the fellows that would be doing the main--it would be the projects people who would still be doing the main resisting of loans or the main advocacy of stricter and stronger conditions. But still the loan officer, say, who is the chairman of the working party and what not, he’s the fellow who’s really responsible for carrying through the loan or turning it down or insisting on new conditions which are going to—well, strike “new”—insisting on conditions that are going to delay the loan, that’s often the kind of picture, whereas the project officer has his professional expertise and integrity to defend, and it's pretty—it’s sometimes easier for that project officer, for management, to make a judgment about the quality of his work, depending on whether he turned something up or turned something down. He's going to be rewarded if he comes up with good reasons for turning down a bad loan. But on the side of the loan officer, the dice are terribly
loaded that the loan officer whose job is to make loans is going to be scored in accordance with his quantitative achievements.

LEWIS: Did you—were you on the look-out for sort of "puffing" project appraisals that came up with too euphoric estimates of might be returns?

KNAPP: Oh, sure, yeah.

LEWIS: Was there any competition among regions with some trying to be softer appraisers than others? Well, I mean, either one of those?

KNAPP: Oh, well, I don't know. I don't know. See, one of the problems there was the regional banks. In fact—at least we used to think the regional banks were—certainly the Inter-American Bank was less rigid in its lending standards and so you'd have that element of competition. And so there was a certain tendency on the part of the Latin American loan officers to kind of be under the pressure of that competition and have it influence their own standards. But I would say generally that the pressure for low standards has been in lending to Africa...

And so the argument would be—well, take in the field of education. One of the very few occasions that I remember overriding the projects people was in the education project in Burundi. The argument from the projects people was that these people are just not competent to carry it out. And the argument on the lending side was that, "Yes, we admit they are not competent, but let's get the foot in the door there. If we're not"—you know, the Bank can always do everything best, so, well, the argument made is, you know—"if we can just get our foot in the door and start working with these people, we can improve, over a period of 5 or 10 years, immensely. And if we just dump them because we don't think they're competent to administer it now, we'll have missed a great opportunity." So we went ahead and made the loan. I don't know—I don't really know what happened in that particular case, whether they did usher in a great period of improvement in educational standards.

LEWIS: I don't either.

WEBB: Could I stray a little bit from your agenda?

LEWIS: Oh, sure. Absolutely.

KNAPP: But we really haven't been going down this agenda very much.

LEWIS: Well, we've gotten down quite a distance, though.

WEBB: On this issue on policy, this vision of the Bank as advisor. You—in your oral history interview you develop this line very clearly, especially in the '60s, the Bank developed in this direction alongside of the [inaudible]

KNAPP: In the macroeconomic sort of management?

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WEBB: Yeah, well, and then later also when it came to emphasizing the social aspect, it was also acting as an advisor, trying to get countries to accept this themselves. As soon as the Bank began to get into that, it had to be much more of a diplomat. And I would think that the success of that effort must have varied enormously, depending on the country and depending on the [inaudible] of the Bank, much more than success of the standard financial projects. I'm wondering how you see some of the extreme cases which have been more successful, cases of the Bank and [inaudible]? Maybe some of the people involved?

KNAPP: Well, the people involved, that's difficult [inaudible] but I could comment on some of the countries. Korea, for example, I think was an outstanding case of the Bank having major influence right from the beginning. And not least of the ways of influence was getting the—was the EDI [Economic Development Institute] because the Koreans started coming to the EDI in droves right from the very beginning of our relationship, I guess from the beginning of EDI. And in later years--I made visits to Korea on various occasions, and they would, the EDI fellows in Korea, would give me a breakfast. And my god there might be forty or fifty of them at a hotel breakfast, and many of them in very influential positions. But that's on the EDI training side. On the side of advice with respect to monetary and fiscal matters, with respect to tariffs and trade, even some with respect to industrial opportunities and possible industrial development, I think the Bank had a lot influence and certainly had a lot of input, and I think a lot of influence, and obviously, somewhere in there we got rewarded with success. I don’t know how large a fraction of our—I don’t know how much of that success actually could be attributed to our intervention.

LEWIS: Are you thinking in the ‘60s?

KNAPP: I suppose in the ‘60s. I remember I went out to Korea before we started lending there. I went on the first mission, practically, to Korea, and I suppose that was in the early ‘60s.

LEWIS: I don’t know when you--of course, there was a big, had been a big AID [U.S. Agency for International Development] presence there.

KNAPP: Yes. I wouldn't want to weigh the World Bank against AID! You're absolutely right. And I did realize [inaudible] how much of a success could be allocated to that. But I think it was a country in which we made a major improvement and which was a success story. Oh, I don’t know, I suppose it was—let’s see.

WEBB: Latin America?

KNAPP: Well, Latin America has changed so much. I mean, what we accomplished there during the ‘60's and ‘70's, say, has been so much overwhelmed by subsequent events. But take Brazil. I think we were a major force in Brazil at times—at times—in supporting—see, often it’s a matter of supporting the right people. At times when we had, say, a Roberto Campos or Lucas Luca [ph], that’s going back a ways, but recently people like Mario Simonsen, we would lend them support in the--in what we thought were the good, solid, productive things they were trying to do. And we would say to them, “Well, we like your program,” we’d even, you know, have discussions
with them about it, introduce modifications into the program, into the financing of the program, into the development program or into its sector allocation or the terms upon which it was being conducted. We had a long argument with the Brazilians about subsidized agricultural credit. And then we would say, "Now, on that basis, if you could carry out that sort of a macroeconomic, monetary-fiscal-investment program, we can support it." I would always say, "Don’t give them a figure,” and Bob would say, "Oh, go on, 700 million a year.” And then Mario or Roberto or whoever could go to his political patrons, the military or civilian people, whoever they were, and use this World Bank endorsement to fortify his position or, you know, to say, "If we do this, we’ve got a gate open here for some very important financing from the World Bank. If we don’t carry out this program I can’t be responsible.” I think at times in Brazil and in Argentina that’s true. I don’t think it is true in Chile. I don’t think it’s true in Peru, although we used to have some very intensive discussions in Peru. I think the discussions with Peru were, as far as I could recall, were largely about their overseas borrowing program—you know, borrowing for military equipment and borrowing for projects that we thought were not justifiable. That’s a whole other area.

LEWIS: Richard, I’ve got a few last minute—I remembered one question I wanted to ask Burke before I go. It’s a small one in a way but it goes maybe to the relations with the U.S. a bit--I’m not sure. We’ve been looking through Board minutes, and I don’t know whether you remember in 1972, you were chairing a Board [meeting], there was a question of a loan for Indian shipping. Remember?

KNAPP: I do. I mean I’d have to—you’ll have to help me reconstruct it, but I remember it was a hell of a difficult issue.

LEWIS: It was a very difficult issue.

KANPP: What did it have to do? Something that didn’t have to do with the shipping business at all.

LEWIS: There was a feeling that India could go to the commercial market. Other people were saying, “Look, they’ve got an overall balance of payments problem and they can't take on more expensive debt.” Most directors seemed to be in support of this loan. The U.S. one, maybe he was--what’s his name? I forget; begins with W—but he was flatly opposed. And there was another one—I don’t know who, what was his name, Bryant or something; he might have been Canadian or something.

KAPUR: British guy.

LEWIS: British guy, I guess. There was a long debate. Most were in favor but there were these two opposed. And at the end of it—you were chairing—and allegedly perhaps for the first time, the chairman [you] suggested that the issue be postponed; you suggested it be postponed until a meeting a week later. And then there was a big procedural debate about whether this would create an unfortunate precedent. They wanted a five-minute break. You said, “Okay, you have a five minute break.” And people kept arguing whether they should have a five minute break. You finally went to lunch and came back.
KNAPP: Oh, gosh, I don’t remember all this detail. I remember a big shamazzle. But how did it come out? Did we in fact vote?

LEWIS: Finally you said, “Well, let’s just have a show of hands.” And there was a big debate about whether there should be a show of hands or not and finally you got your show of hands. And nearly everybody was against the postponement, for the loan. And so then you said, “Well, I’m sorry we couldn't get a consensus, but it is clear that the Board is in favor.” So then S. R. Sen thanked everybody, he had been quietly keeping his peace since he was from the country in question. And that was the end of it. And the question is . .

KNAPP: That is, you know, the tradition in the Bank. The director from the country does not speak to his own loan.

LEWIS: That’s right, and he didn’t want to violate that tradition. But the question is whether you were simply trying to avoid—at that time it was very bad not to have a consensus decision—or whether there was some, or you were particularly concerned about U.S. opposition.

KNAPP: I honestly would say that I was never particularly concerned about U.S. opposition. I really will tell you that. I kept very much at a distance from the U.S., from the Congressional people particularly, because I didn’t want to be put under any—I took very seriously the idea that I was an independent civil servant. I couldn't ignore the consequences for the Bank as an institution if the U.S. lost faith in it and refused to support it, you know. But I really, in a thing like this, I wouldn't have been, you know, particularly concerned about the U.S. attitude. I think what probably—I am a little sorry to hear; I don’t remember that part about that I was going to postpone, and in later years—I think it was because I was pretty new under McNamara and I probably wanted to consult him. But I can remember on later occasions when I had gotten much more confidence in our relationship, in which I would deal more firmly with the Board than I seem to have on this occasion.

LEWIS: Okay, that’s fine. I’m going to have to—well, I hope you can--this has been great, as far as I am concerned, Burke. Thank you very much, and we will get back to you.

KNAPP: Thank you, John, and good to see you.

[Lewis departs]

WEBB: I don’t know—this is another thing and it has been a long talk, and I would hope that we could . . .

KNAPP: Meet again sometime, yeah, yeah. I would hope so.

WEBB: What are your--when might you be back in Washington?

KNAPP: Well, I don’t normally come here, to tell you the truth, except for some particular reason. Now the particular reason—I mean, I’ve got a couple of kids here,

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a son and a daughter, and it could be something having to do with them that would bring me back, but not just on a visit because they come and visit us on the West Coast from time to time. It would be—I’m always here for the annual meeting of the Fund and the Bank in September, but that’s a long way ahead.

**WEBB:** It’s abroad next year.

**KNAPP:** That’s right. It’s in Bangkok, that’s right. I’m here occasionally on business. I am an international consultant. I do work—my main client these days is Morgan Grenfell and Company in London. And they may ask me to—usually it would be a question of—they would be sending some people over here and asking me to join them. I wouldn’t very often just come here alone on the Morgan Grenfell relationship. I might come back for a conference of some kind. Of course there are hundreds of conferences in Washington around the year, but it would be rather a special one that would bring me back. The short answer is that the chances of my being here in the next few months, say, are very slim.

I do go down to Jamaica. We have a house in Jamaica, and we go down there for three months. It’s my wife’s house, actually, and she loves it. She’d like to go down there 6 months of the year. I would say I get tired—I can’t live there that long. So it’s perhaps an opportunity for me to pass through Washington on my way to or from Jamaica. In fact, let me be a little more specific about that. I’ll be going to Jamaica in December, just before Christmas. And as I talk here I am kind of becoming more doubtful about this because my wife would not be very happy. We travel together, and we’re stopping off in Atlanta for various reasons. It may seem a little curious to you to go to Jamaica via Atlanta, but we’re flying from San Francisco to Atlanta, staying over night, and then going on the next day to Jamaica. Well, all I’m thinking is that that’s a small detour to come up here from Atlanta, but it would mean that I would have to come ahead out of San Francisco, ahead of my wife, and I’m not sure she’d like that.

**WEBB:** What about the possibility of your coming if we could bring you here?

**KNAPP:** Well, let me ask you this: do you pay expenses?

**WEBB:** I’m sure we could arrange something like that.

**KNAPP:** Because that would make a difference; one thing that deters me is the expense. This present trip I am doing on points; it’s a free trip. Well, of course, I’m using up my points that I might otherwise use for another thing. But again I didn’t come here for this meeting; this is incidental. If you would be prepared to pay my expenses, even my travel expenses—because I stay here with my daughter so I don’t have any hotel bills or anything—that would make a difference.

**WEBB:** Fine. Maybe that would be the easier way, I think. You’re such a large part of the history of the Bank, we need to spend some time . . .

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KNAPP: I've also been out a long time. You see, I retired as the senior vice president in '78, twelve years ago. I stayed on for three years with McNamara to help him on fundraising and government relations and that sort of thing.

WEBB: Is that right? You stayed in Washington?

KNAPP: Yup. For three years, until '81. Then I left for California. So nine years out of Washington and twelve years out of the job here that you mainly want to talk about.

WEBB: You have an extraordinary recollection.

KNAPP: Well, I’m a little surprised myself. I wondered coming over here how much I remember. When he challenged on the India shipping, I thought, oh, god, that was [inaudible] I couldn’t remember why.

KAPUR: Board transcripts on India shipping [inaudible] I’m curious—one of the questions is that if large funds . . .

KNAPP: [Robert E.] Wieczorowski, by the way, was the U.S. director then. Do you know him at all? He lives here in town. He’s an investment counselor, and I know him and keep in touch with him.

KAPUR: What is the actual effect on a country, actually, when the Board says no to a loan, when the Board opposes? What is the practical effect? I mean, how does it affect your future loans of that type or to that country?

KNAPP: Well, now, first of all you understand that the Board operates by weighted voting and very seldom, very seldom are actual votes taken. But in the cases that . .

[End Tape 1, Side B]
[Begin Tape 2, Side A]

KNAPP: Well, as I think about it, it requires a little more explanation about how a loan comes up for a vote.

In the first place, the Board receives a progress report at all times of the loans that are under consideration or under negotiation. So right from the beginning when even a loan is under consideration, a country that is opposed to that kind of a loan, say, has an opportunity right then to say, "Stop! You shouldn’t even process this loan. We don’t want to hear any more about it." And then to go on, right down to the end of the line, and if the management persists with the loan and brings it to the Board, knowing that a country is opposed to it, we wouldn’t hear this for the first time at the Board meeting. We would have received plenty of advance notice. And maybe, in view of the expressed opposition, we would have modified the loan or the conditions of the loan. But then finally, if the management persists, as I say, and they go ahead and negotiate the loan, bring it to the Board, and it's voted up or down in those very rare cases where it comes to a vote. And the vote is by majority of 50.1% of these groups voting as "blocks." Of course, if you’ve got a single country “block,” like the U.S. or
Britain or France or China, that’s just one country, but the other countries have to vote as groups. Well, now, I’m trying to think within my experience whether a loan has ever, ever been voted down. I just honestly can’t remember a case.

WEBB: Nor filtered out before getting to the Board?

KNAPP: Oh, filtered out before, yes, yes—but it would be brought to the Board—there have been votes, there have been close squeaks. There have been votes of 52%. But I don’t think I recall a case where a loan was ever actually voted down.

Now—and this is very relevant to your question—because often, in such a close squeak, the kind of last desperate argument by the management is to say, "Well, we do what you say, we've negotiated this loan, and we want to go ahead with it, but we won't bring another loan of this kind" or “We won’t bring another loan as big as this” or “The next loan will have a lot of conditions that will deal with the problem that you have in mind.” So very definitely the Board discussion and opposition expressed in the Board to a loan that is finally voted through, nonetheless may have an effect on future loans. I mean I think I would say, without being able to remember specific cases, I think I could say with some safety that I believe there were certain cases where we got a loan through only by giving such an assurance.

KAPUR: Do you remember the actual cases?

KNAPP: No, I don’t. I don’t. I can’t cite a particular case for that. Now, but--I don't know whether your question had to do with—we were talking here about the U.S. opposing a loan. It might not be U.S. I mean, the people that often opposed loans very much were the Scandinavians. They would be opposing it for rather different reasons from those that would usually be advanced by the U.S. The Scandinavians would be opposing it very often on grounds of adverse effect upon the environment or adverse effect upon poverty or at least not adequate attention to the problems of poverty, you know, in a social, liberal-social sense. And we would say, “Okay, if you feel that strongly about it, why, we won’t bring another one quite like this.”

KAPUR: Right. The sort of interesting part, I think, which when one tabulates the Board decisions in the ‘60s, ‘70s and ‘80s, particularly the later half of the ‘80s relative, say, to your time, is that the formal "no votes"--actual opposition to the loan when it comes to Board, say one country or two countries actually oppose—I think has increased.

KNAPP: It has?

KAPUR: Yeah. And I’m—I guess my sense is what is the message that that sends out? Has the institution got more, sort of, takes it more in its stride?

KNAPP: Well, let me first, before I try to answer that question—are you from India?

KAPUR: Right.
KNAPP: Well, let me remind you of this, that the U.S. Congress passed a law at one time requiring the U.S. director to vote against loans to India. And it had to do--did it have to do with their explosion of a nuclear device? I think it did.

KAPUR: I didn’t know that.

KNAPP: Yeah, it had to do with something as irrelevant as that. And every time we had a--we just went ahead and did our loans to India. And every time we made a loan to India, whether a Bank loan or an IDA credit, the U.S. director would raise his hand at the end of the whole thing and would say, "As you know, I am instructed to vote against this loan." And he would do that on every loan to India over a period of a couple of years. And it became kind of a joke. I mean, obviously the administration in the first place was unsympathetic with this act of Congress. And the U.S. director would reflect this lack of this sympathy by just making it, you know, in a casual kind of a way, “Please record me, as you know, voting against.” He wouldn't argue against the loan; he would never speak on the loan; he would never speak on a loan of that kind even if he had things to say about how the loan was designed and constructed and the conditions of the loan. He would keep quiet, just at the end, before the vote was taken, he’d say that. So that's one of the occasions I recall how you suddenly got a pile-up of negative votes, but it was all rather "formalistic," you see. They weren’t-- the U.S. was not really attempting to defeat a loan.

KAPUR: If you see any of the loans in the ‘80s, there, especially the past few years, and where it's opposed [inaudible] you have a loan discussion go on for eighty or ninety pages in the transcripts, where every small detail of the loan is flushed out, whereas is very different from the sense that you are saying where it's more “as per instructions.” In fact, we still would have even for--Congress has passed a thing on certain commodity loans which would affect U.S. farmers—citrus fruits, sugar, I think palm oil—and that was more formalistic, sort of “don’t ask for instructions.” But now it’s very different.

KNAPP: Well, now, is this the U.S. or different countries?

KAPUR: Well, I just looked at these ones. I haven’t yet really focused on—but this year, all loans to India the U.S. has opposed, and each one has gone for about seventy, eighty pages.

KNAPP: Let me make this—you see, I’ve been out of the Bank effectively for, say, ten years. So the last ten year history of that kind of thing I'm not up on. But what would happen--I gave you the extreme case where the Americans just routinely [inaudible] But then there are often cases where we don't take a vote, but we know from the beginning, we’ve been warned from the beginning—I think mostly the Scandinavian director would offer it this way--he wouldn't ask for a vote because he'd know he was in a hopeless minority, and all he would do at the end of the discussion is say "Please, I want to be recorded in the minutes as voting against it.”

So when I said votes were very rare, that is literally true, but there may have been--there were certainly many, many other cases where we didn't have a vote, but we had a negative vote recorded. But that was the case where the negative vote would be

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made by a country or a group of countries who knew that they were in a total minority but wanted to make it for the record for telling people at home that they opposed this loan. But the great majority of loans would go through without any dissent.

Another formula is abstention. At the time we were making the loans to Israel, we’d have a lot of abstentions. I guess the Arabs would mostly vote against, but then we’d have other abstentions. You see, we would be making loans to Arab countries financed by the sale of bonds in markets in which Israel was important. So we always managed to escape the Arab-Israeli conflict by making loans to both sides and without any great excitement or dissent. But then Israel came to the point where we "graduated" them and kept lending to Arab countries. I guess we must have stopped lending to Israel twenty years ago. In fact, we stopped lending to South Africa; we "graduated" them, which saved us some headaches.

KAPUR: Right. Because, I guess, there was some measure from the U.N.

KNAPP: That’s right, yeah. The United Nations would pass resolutions about the terrible World Bank lending money to South Africa. We—we had--there is a memorandum of cooperation between the United Nations and the World Bank that we used to call the "treaty"--it wasn't really a treaty but it’s a joint memorandum in which the United Nations agrees not to intervene in any particular operations of the Bank. They can intervene and make resolutions or what not in general terms. I think they did pass some resolutions which were in conflict with that cooperation agreement.

That cooperation agreement would have been signed right back in the first days of the Bank. You see, the Bank existed before the U.N. And in that sense, although we are regarded as part of the U.N. family and all, we have always been regard as enjoying--the Fund and the Bank--as enjoying virtual independence from the U.N.

WEBB: One of the things that you say in the oral history that really struck me was in talking about the evolution of the Bank from being a standard financial institution and becoming a development institution and also incredibly more powerful, it changed both the nature and the style enormously in relation to what was originally conceived. You say that this was often attributed largely, to a considerable extent, to McNamara, but you think it was something that would have happened anyway, that if McNamara hadn't have done it, somebody else would have.

KNAPP: I remember saying that. I didn't mean by that at all to minimize the importance of McNamara's leadership. And it is a fact that his sheer personal energy and drive undoubtedly—I mean, his vision on the one hand and his tremendous drive on the other undoubtedly accelerated this process. But I was saying that I felt sure that the Bank would have expanded its operations and expanded its philosophy and approach to become much more of a development institution than a financial institution. I do feel a certain inevitability of those trends, although certainly they were accelerated by McNamara.

WEBB: The extent to which the Bank was able to influence in addition to money--was it essentially a matter of having leverage?
KNAPP: Absolutely. Absolutely. And this, by the way reminds me about our relations with the U.N. because there were a lot of U.N. agencies—well, just take the field of agriculture. When the Bank began making agricultural loans and fixing conditions on agricultural loans with respect to, for example, the rate of interest to be charged on agricultural credit or the subsidies to be given to inputs like fertilizer, the FAO [Food and Agriculture Organization] began to get very uncomfortable, and they would say to us—we had a constant interchange with them—and they would say, "Well, you're coming onto our turf. You're interfering with us. We work with these countries and we provide technical assistance." And it always came down in the end to the fact that, yes, they provided a lot of advice and very little was taken. We provided a lot of advice and a lot was taken. And obviously the difference was the leverage of the loans. Absolutely. The FAO people really had to accept and recognize that.

Well, I think of a case later where—are you familiar with an organization we call the C-G-I-A-R [Consultative Group for International Agricultural Research]? There's a big potato operation in Peru and they're connected with that. Well, when the CGIAR was organized—it was; I forget whose original idea it was, but—well, I'll tell you who it was. It was the Rockefeller and Ford Foundations, who had been supporting these research agencies like the rice institute in the Philippines and the wheat institute in Mexico and so on. And it began to get just too expensive for them; they couldn't carry on. So, anyway, they came to the World Bank and said, "Well, could you organize some international group to finance these research institutions?"

And we said "Well, yes, but what about the FAO? What are they doing about it?"

So then the foundations went to talk to the FAO, and the FAO would have been the normal leader of such a thing. But the FAO—and this is a little different from loans—but the FAO just said, "Well, the World Bank would be able to raise the money for this in a way we couldn't hope to."

And the World Bank did actually give some money for the support of the institute, CGIAR, [inaudible] 10% of the total or something. But the FAO said, "Well, we recognize the Bank has the financial clout to go around to countries and get contributions." So there again is an instance in which the financial clout was more important, so to speak, than the actual technical qualifications.

WEBB: The Inter-American Development Bank has never been particularly aggressive, either, on conditionality.

KNAPP: No, they haven't. And, you know, that's understandable. They're a bank who—predominantly staffed by Latin Americans, predominantly the voting power lies with the Latin Americans. I don't know quite where it lies right now after all that controversy, but . . .

You know, we used to have a principle in the World Bank in the earlier days that we would just really never assign—well, we would never assign a loan officer who was a national of a country to that country. And only rarely would we assign a loan officer from an area, from a continent, to another country on that continent. I don't think it

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was until—let me think now—[Adalbert] Krieger Vasena—we never had a vice president from Latin America in charge of the Latin American work until Krieger Vasena. I recruited Krieger Vasena for that job, and then of course later [Nicolas Ardito-Barletta] Barletta, Nicky Barletta. But if you look at the whole run of it, few of the, very few of the directors, the vice presidents for Latin America had been from Latin America. We have gotten to the point now of recognizing the practicalities of language and all that, that our Latin American department or office in the World Bank has got a lot of Latin American nationals, but, still, I don’t know, maybe not more than 50%. The loan officer in charge of Brazil is a Pakistani.

WEBB: I don’t remember the Fund being bothered by this.

KNAPP: No, you’re right, you’re right, you’re absolutely right. We used to discuss that back and forth between the Bank and the Fund. No, the Fund from the beginning—like the head of the African department at the Fund has always been an African.

WEBB: There’s sort of a feeling that they seem to have that they can’t go wrong, so why worry about it!

KNAPP: Maybe, maybe. Well, look, maybe I’d better break off now. Let’s get together again—I’d be most happy to. We’ve got lots of interesting things that we haven’t touched on yet.

WEBB: So many. I think we should—we could ask you an enormous favor, if you could let us know when you’re in town.

KNAPP: Sure. Oh, absolutely, take that for granted. I’ll let you know. And then you—you must consider this. I will be—of course, you know, as a matter of fact, I can come up from Jamaica fairly easily. And to tell you the honest truth, now—my wife, you see, we’re on our second marriage. It has been going on some 15 years now, and she lived in Jamaica before we were married so she always wants to go back there. But I get sort of bored down there. So, actually, as I think of it, that’s the best idea: I would come up from Jamaica. And I’ll be in Jamaica for January, February, and March. What about that?

WEBB: Perfect. Excellent.

KNAPP: What about February? Kind of halfway between . . .

KAPUR: Maybe if you could leave us an address we could perhaps send you the questions this time, sort of earlier on.

KNAPP: Do you mean my California address or my Jamaica address?

KAPUR: Jamaica address, perhaps.

KNAPP: All right, you want to make a note of this? It’s very simple. It’s Box 184, Port Antonio, Jamaica. And it may be a good idea to put British West Indies, B-W-I.
because once I got a letter back from Jamaica, even because I put foreign postage on it, and they said it had gone to Jamaica, New York, which is a small town, and it was returned addressee unknown. I thought that was pretty stupid. You know, there are lots of towns around the United States called things like Athens and Rome and Paris.

KAPUR: There are six Moscows. Six of them.

KNAPP: There’s a Moscow, Idaho.

WEBB: There are even a couple of Perus.

KAPUR: New Delhi.

KNAPP: You know, I’ll mention to you one of the earlier experiences in terms of getting upset about countries borrowing. We would sometimes say that our lending program is very much affected by what you commit credit for. If you borrow for armaments or crazy projects . . .

One of the crazy projects from the first days—the first time I ever went to Peru was in about, let’s see, ‘53, probably, ‘53, ‘54. We were making loans for the railway there and the port of Callao and for, I suppose, probably some electricity projects. Those were the early ones that we did. And when we arrived there, we found the country getting very near the point of commitment of what, at that time, seemed a huge sum— I don’t know, it probably wasn’t more than 50 million dollars, but, you know, multiply that by ten, and so forth, for today’s rates—in which a French group was selling the government on the idea of building a metro (by “metro” I mean a subway) from Lima to Callao.

WEBB: I don’t remember that.

KNAPP: We thought this was the craziest idea we’d ever heard! Well, it never went through.

WEBB: That must have died pretty shortly.

KNAPP: Were you sort of as early as that in the game?

WEBB: No, no, I don’t remember that one. A very controversial project which we did help: San Lorenzo.

KNAPP: Oh, yes, right. Sure. Right. That hasn’t gone particularly well, has it?

WEBB: Well, according to [Albert O.] Hirschman, it ended up happily. For Hirschman the [inaudible] always ends up happily. He looked at this in this study he made of a collection of projects for the Bank. But it took an awful long time. I think now . . .

KNAPP: I went up on the scene on that project when it was under construction.

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WEBB: It's a beautiful project now. It's just the cost-benefits that the [inaudible] And now it’s flourishing.

KNAPP: We always found the French were particularly difficult for us because the French were great at promoting projects for subways, metros and water supply. I don't know how they ever became so dominant in those fields, but they were very important. And they still are in water supply [inaudible]. But the problem was that they were always very extravagant projects and they over-built. They were what the engineers called "gold-plating." I mean, they built a waterworks that would be the most beautiful, magnificent, and well-functioning waterworks, but it would cost three times what was necessary to meet the demand.

WEBB: Did they foot the bills on Africa, on their colonies?

KNAPP: Wait a minute, it has to be said they did build them, but they paid for them, too. But I'm thinking about imposing them on poor countries that have to pay for them. Yes, I think you'd find water supply in Abidjan and Dakar and so on to be beautiful plants.

WEBB: Do you, by chance, recollect the minister of finance around that time called Guy Moye?

KNAPP: How do you spell that?

WEBB: G-U-Y M-O-Y-E.

KNAPP: No, I must say I don't. Pedro Beltran I used to know very well. His wife, in fact, is from California and is still an old friend. I saw her out there only a month ago at a dinner party. Pedro is a great fellow, but of course I've known him . . .

There was one fellow who distinguished himself--have you ever gone to our Annual Meetings? You must have. Well, you know they are very straightforward affairs. But the Africans occasionally wear their glorious African robes. I don’t think the Arabs--the Arabs hardly ever wear their costumes there. But this fellow—and his name was [inaudible] he was a very flamboyant—he would always come in a magnificent military uniform—General—this would be about 20 years ago . . .

WEBB: From Peru?

KNAPP: From Peru. Maybe 25 years ago. And he was in office for several years, and he became a kind of feature at these annual meetings, always coming in with great gold braid.

WEBB: General [Francisco] Morales Bermudez?

KNAPP: Morales Bermudez. Is that it? Yes, I was thinking Bermudez [inaudible]

WEBB: He was minister twice, then he became President. You must have been [inaudible] He was my student for awhile, a very studious one.

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KNAPP: I'll tell you who else I've seen just recently in California is [inaudible].

WEBB: Yes, he lives out there.

KNAPP: He lives out there and I saw him at a dinner party out there. But I must tell you one story and then I'll get on my way.

The first time we had this experience with an African—see, when the Bank started all the African countries were colonial and weren't members of the institution, only Ethiopia and Egypt—well, North Africa, Morocco and Algeria were there—but not sub-Saharan. And the first country to achieve independence in sub-Saharan Africa was Nigeria. And they were a big country for us, and we had eventually a very sizable lending program there. But there was a minister of finance who was—before independence already Britain had already handed over a large degree of authority to the local government and they had a prime minister, or something like that, and had a finance minister. And this finance minister—our practice then was to invite to the Annual Meeting countries that were about to become independent. This fellow's name was Chief Festus Sam [Festus Okotie-Eboh], and he subsequently became the finance minister of Nigeria and was in office there for many years, like five years, seven years. And then there was a revolution and he was found dead in a ditch, very, very much, very much shot up. He was notoriously corrupt; they're not even sure of what he got. But anyway, the very first time that he came was before independence [inaudible]. And I was sitting up on the dais as the crowd came into the room and began to fill up, and a fellow there was standing with me, suddenly grabbed me and said "Burke, look, look!" I looked up and there was this Nigerian chieftain in all his spectacular robes, a great hat and a plume, walking down the middle aisle. He said, "My God, who's that?"

I said, "Well, that's Chief Festus Sam."

"Who's he?"

"He's the finance minister of Nigeria."

And the guy shook his head, "First time I ever saw a finance minister in technicolor!"

But you could almost have applied that to Bermudez, Morales Bermudez. He was a real spectacle.

WEBB: Well, I'll ask him about it when I next see him.

[End Tape 2, Side A]
[End of Session 1]
WEBB: . . . We’re still at the stage talking to people, rather than sitting down to write, and John and I are still coming in and out. I'm moving here within a few weeks.

KNAPP: Are you! Good.

WEBB: So for me it will be the beginning of serious work. We can get really involved; and John is retiring at Princeton.

KAPUR: He has.

WEBB: He has? Of course, that's right. The term is over. He's just retired, so he's also free.

KNAPP: Which means he'll not be doing any more teaching?

KAPUR: No, so he's going to start on this full time from the end of July.

WEBB: Well, we've got all these threads--more and more threads.

KNAPP: Yeah, I know. Have you ever talked to [A. W.] Clausen?

WEBB: Not yet.

KNAPP: Tom Clausen? Of course, now you've got Barber Conable becoming a--as he becomes a retiree, he may be willing to talk.

WEBB: Yes, we had one conversation with him, with Conable, but not yet with Clausen. Clausen's out west. We’ve just got to organize ourselves.

KNAPP: He's retired from the Bank of America.

KAPUR: I think he's on the Board of Trustees at Brookings. Mr. Clausen said he comes here once a year.

WEBB: Do we have a plan to see him in the next ten months? We don't yet, do we?

KAPUR: We haven’t. That’s one person we haven't made any effort.

WEBB: Do you ever see him?

2 Interview conducted by Webb and Kapur without Lewis.
KNAPP: Yes. I don't see him so much now that he's retired from the Bank of America. I used to go up there and have lunch once in awhile and call on him, because they keep offices there in a wonderful way for their ex-executives, so he will have a permanent office and staff there. They've still got—I don't whether your memory goes back to the days of Rudy [Rudolph A.] Peterson. Rudy Peterson was the president of the Bank of America in the 1950s, I guess, and then he became the head of the UNDP [United Nations Development Program] and ran the UNDP for several years along about 1960. But he still, you know it's now 30, 35 years later, he's quite hale and hearty, and he goes back, and they keep an office and a secretary.

WEBB: Does he sit on the Board?

KNAPP: I doubt it. He'd be beyond that age, for one thing. I think probably—probably they don’t accept anybody over 72 or 75. He must be already in his 80s.

WEBB: I once attended a meeting of the IBM board.

KNAPP: IBM?

WEBB: IBM. And I was surprised to see Tom [Thomas J.] Watson was still attending as a board member.

KNAPP: Yes. Well, of course, he was the founder of IBM. For the Bank of America, you would have to go back [Amadeo] Gianini to find an equivalent figure.

Well, okay! So what's on your mind today, and how can I be helpful? I should take my coat off at the start! I've been lunching with a couple of people in the Bank, Moeen Qureshi and Wilfried Thalwitz, so I'll know what's going in at the Bank. It's a mess, a messy situation over there, confrontation with the U.S. It doesn't make any sense, it just doesn't make any sense. It's totally unnecessary.

WEBB: It sounds extremely personal.

KNAPP: Yeah, it has a lot of personal edges to it. Well, anyway, I didn't come to talk about that, except only to say that I was very unhappy to find the Bank at such a stage and at such an awkward stage with Barber going out and [Lewis] Preston coming in, and Barber is naturally wanting to leave a reasonably clean slate. If a problem like this doesn't get resolved ‘til Preston comes in and it's forced onto him...

WEBB: Couldn't be a worse way to start.

KNAPP: ...bad for Barber.

KAPUR: And also the budget is pressing on it.

KNAPP: The World Bank budget?

KAPUR: Right.

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KNAPP: I haven't heard of that so much of as issue right now

KAPUR: This is, of course, blown up so much more.

KNAPP: Of course, the budget talks every year have problems

KAPUR: And when Clausen left they almost [inaudible] before he left

KNAPP: That's right. He left in the middle of a great budget crisis, although I think when he left it had sort of boiled down and been resolved.

KAPUR: And the same thing here again, but this is extraordinary if you see the transcripts from the last Board meeting. Unbelievable.

KNAPP: You see, I was chairman of a commission that Conable set up about three years ago to render a report on the World Bank, IFC, the Bank group activities.

WEBB: Is that right?

KNAPP: Yeah. The World Bank activities in support of the private sector. That was our mandate, and we had half a dozen, six or eight, people from all over the world: Abdul Latif al Hamad was one of the members. Dick . . .

WEBB: Cooper?

KNAPP: From Morgan Stanley, and we had a fellow from Colombia, a former minister of finance and director of the world . . .

WEBB: [Jorge Humberto] Botero?

KNAPP: No, not Botero--I'm getting worse and worse at names.

WEBB: Bisner [ph]?

KNAPP: No, no. More recently. And then he came as a member of the Board of the World Bank. How is Botero these days, do you know?

WEBB: Well, we saw him, what, about nine months ago, he was at the last advisory council meeting. He looks fine.

KNAPP: He's a great fellow.

WEBB: He knows how to live. He manages his life very well--a bit of squash, some academics, just the right amount of work, very aristocratic in his style. It’s very Colombian!

KNAPP: Coffee Colombian?

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WEBB: Coffee Colombian.

KNAPP: Well, anyway, now, you want to put some issues, or how do you want to conduct this?

WEBB: Well, we have one--it's rather--it's a big question that might lead to some interesting thoughts. You might have thoughts on this one. One of the most dramatic developments at the Bank, and one which precedes the arrival of McNamara, and a multiplication of the Bank, and I just can't help continuing to wonder how much of what happened would have happened anyway.

KNAPP: I think we talked a little about this last time. And I think that what I was saying was that, well, sure, some of it would have happened, but that the force of McNamara's personality and ideas and just sheer drive accelerated things far beyond what they might have been with a, let's say, a more conventional sort of President. No, I think that the McNamara Bank was to an extent, a remarkable extent, a reflection of the personality of the leader. And I think both in qualitative terms--that is to say in terms of development of different sectors and the greater emphasis on social--agriculture and social sectors and poverty orientation and family planning, that kind of thing--it was certainly greatly accelerated by his arrival. We had already been in those fields but in a much more modest way. And certainly quantitatively, you see--in terms of quantity of operations, quantity of lending, quantity of staff--he aggressively pushed out the frontiers and aggressively pushed out the staffing and the budget. He used to talk about having a critical mass of people in different sectors, in different areas of the research studies and so on, and if we had, say, one or two people who were working on fiscal policy, why, he'd say, "Gee, that's not a critical mass. You've got to have at least half a dozen on there."

I remember--let's see. He came in, I suppose, in June, and work began immediately on his speech at the annual meeting where he would kind of address himself to the new directions that he would like to see things move in. And he began to talk about quantitative targets for lending, you know, he wanted to double lending in this area, he wanted to triple lending in this area, and so on.

And I was unready for that kind of quantitative targeting in the sense that I said, "Oh, Bob, look. Sure, let's move in. Let's hire staff. Let's get to work on agriculture, but," I said, "don't commit yourself to quantitative targets. We'll do the best we can."

To which his response was, "Well, damn it, unless we get these quantitative targets, something to shoot for, we won't have that kind of--the thrust that we need to attain these targets. It will give an incentive to people [inaudible] object . . ." And even he would talk about, you know, committing ourselves to a certain amount of loans to countries.

And I would say, "Oh, gosh. Go easy on that. We don't want to get committed. I mean, we don't want to disappoint them if we don't achieve the targets, and maybe things will happen that will prevent us achieving these targets. They won't conform to our requirements and project formulations, our conditions, or we'll go into a bad economic decline and our creditworthiness will not be sufficient to sustain that"
volume of lending." Well, I got beaten up, overridden on practically all those things, and he would insist on fixing these targets.

As far as the overall targets were concerned, and the sector targets generally, we generally achieved them—not uniformly. On country targets we did have some of the problems of having, you know, got committed to—even over a period of years. I mean, we would have—I was not too unhappy, though I thought there was a lot of sort of speciousness about the figures, but I wasn't too unhappy about having an internal plan which said this is our five-year program of lending in a country by country [inaudible] but I didn't like to see country planning figures like that get thought of and understood by the country concerned as if it was a semi-commitment to make that amount of lending.

WEBB: Did it happen that way?

KNAPP: Sometimes.

WEBB: Did it erode your leverage, do you think?

KNAPP: That we failed to meet targets and commitments?

WEBB: No, the fact that there came to be an understanding, a spoken commitment?

KNAPP: Well, I think sometimes, yeah. I think sometimes it weakened our kind of bargaining position, so to speak, again both at the level of project conditions. In the first place, you see, our lending at that time was almost entirely project lending, and we were already lending in broad areas like agricultural credit which would cover the agricultural sector, or industrial credit, or financial—this was in the days before we talked about structural adjustment loans. But, yeah, I think sometimes we were under certain internal pressure. Our staff felt under a certain internal pressure to achieve pre-announced lending targets. This is now a little different. This isn't so much the country couldn’t, but just internally the staff felt that having fixed these targets that they ought to achieve these targets.

And when I would say to Bob, "Look, damn it, the fellows working here on Argentina or on Thailand or whatnot, they just feel that they've just got to get to those targets and it's diminishing, diluting their willingness to insist upon appropriate conditions."

And he'd say, "Oh, Burke, that's your problem. You whip 'em up." He says, "I never meant in announcing any quantitative target, I never meant we should reduce in any way the quality of our lending." He said, "You've got to impress this on people. That's your job, see, these lending targets, to see that these project standards and country lending, creditworthiness standards are fully maintained."

WEBB: How do you see that in him, this kind of—it's almost as if it were winning, a refusal to see tradeoffs at that level? Was it kind of programmed in him or was it genius in a sense of one, only someone who thinks like that really manages to break through targets, and that we're all stuck thinking in terms of trade-offs.
KNAPP: Trade-offs? I don't understand the sense in which you use the term. Trade-offs between?

WEBB: Well, trade-off between volume and quality or insisting on conditions?

KNAPP: Well, we didn't think of it so much as a trade-off. We just thought of it—I mean, you know, it wasn't that we were going to trade higher quantity for lower quality. That would be one trade-off you could make. You'd say, “Well, sacrificing conditions here in order to maintain the volume of lending.” It wasn't really that. And McNamara himself, if you asked him, would say, "Oh, I don't want to trade off any reduction in quality for maintaining the quantitative standard."

The kind of case where we came closest to that was a case that you--I don't remember whether we've discussed this before or not, but the question was—this came up in Peru at a later stage--the question would come this way: you would be--I remember in connection with Brazil that for some reason, being internal economic disorder or lack of properly processed and conceived projects, for some reason your lending would be falling off, your new lending would be falling off, and that would be reflected in due course, in a year or two, in the falling off of disbursements. And then you'd get to the point where there was a net flow back to the Bank from a country of debt service measured against new disbursements. Now, I always said that didn't worry me. It was interest payments. It didn't worry me to the extent that it was the interest payments (I could expand on that, but anyway). Then we'd even get to the point where new disbursements didn't match capital repayments, so there was a net repayment of capital, and when you got to those positions either a net inward to the Bank total flow of debt service matched against disbursements or an actual net capital inflow, capital repayments exceeding your disbursements, then you began to get from the country concerned--from Brazil, if you will--saying, "Well, the least the Bank can do is at least give us enough new loans to create a new flow of disbursements to remove this negative flow." And I've heard that about Peru since my time, but I heard it in the sense that when Peru was actually in default at one time on payments to the Bank--weren't they? maybe they are now; I don't know--but there was talk about that Peru would resume payments to the Bank if they could get assured that they'd get enough fresh loans to, you know, provide for a flow of disbursements that would match the repayments they were making.

Well, when you get in that kind of situation, there is a special pressure on the Bank to kind of stretch a bit, let's say, and make a big project loan and maybe to cover—I mean, another way in which such a situation can be reflective is to take a bigger than normal share of project expenditures, in the case of a project loan, cover a lot of local currency expenditures, for example. Stretch--there were a lot of ways you could sort of stretch a bit, and that would be an ideal way to do it, actually, to have disbursements against local expenditures which would be pre-approved foreign exchange to the country to meet its obligations. And I think there were some cases like that, I think mainly in Brazil where we, because of these larger considerations about the World Bank portfolio, say, about the World Bank financial relationship with the country as a whole, where we felt--"obliged" would be too strong a word--but we felt for the sake of maintaining the relationship with the country that we ought to stretch a bit.
KAPUR: I guess—to take up on Richard's point. My sort of impression of the McNamara's thought is that you could always increase quantity without sacrificing the quality, or at least maintaining the quality standards of the Bank and continue to increase quantitative indicators, and just not seeing at all that beyond a certain point perhaps, perhaps that might not be possible, that you could not continually increase quantity and always maintain the quality standards. And the impression one has of him is that he did not see that there could ever be that sort of trade-off in the institution he led.

KNAPP: Oh, I wouldn't say that. I think that would be carrying it too far. You know, Bob is a promoter. He's an optimist—well, sometimes he can be very pessimistic about something like population policy—but basically he's such a doer, a builder and a promoter, you have to be a perennial optimist to do that kind of thing. Take a fellow whose career is in developing urban real estate. He has to believe that prices are always going to be going up and rents are always going to be going up and so on. So Bob had such a basic cast of mind and intellect, but sure, no, no, no, he didn't, he certainly did not just blithely assume that you could expand quantity indefinitely without the sacrifice of quality. In fact, I revert to what I said before. He really—he was always charging me. He said, "Now, look. It's your responsibility," particularly on project standards and so on, but also on country standards, but particularly on project standards, he largely delegated to me the management of the project financing. And he would say, "Whatever has been said about quantity, whatever our targets are, I look to you to maintain the quality of them." And so, I mean, you know, the mere fact that he said that indicated that he recognized the dangers of diluting quality in order to meet quantitative objectives. I don't think delegating so much to me meant that he wasn't interested in it. It just meant there was one, you know, phase of his overall activities that he felt he could—well, let's say he had confidence in me to kind of handle that part of it.

On country—of course, on country creditworthiness we would have—I think I talked the last time; you're familiar with—where we'd have these country programs and we would have annual reviews of country programs and annual assessments. I don't mean that nothing happened in between, but at the top management level we'd have annual assessments of country creditworthiness and performance and repayment capacity, you know. And he always chaired the review groups for the—we had these so-called country policy papers, and he would review those for all of the major countries, for perhaps 25 or 30 major countries, and then I would chair correspondingly some of the smaller countries, but even then always keeping very closely in touch with him so that in terms of volume of quantitative targets, to the extent that the limit on country targets and the criterion for country targets was the country repayment capacity and creditworthiness, he was always keeping pretty much on top of that.

WEBB: Could we go back a little bit to the '50s? You were, I think, the first director—or whatever the position was then—for Western hemisphere?
KNAPP: Western hemisphere, right. Well, it was called director. We at that time only had one vice president. Gene Black was president, and Bob Garner was vice president; and after that it was directors.

WEBB: Do you remember a mission to Peru, Mervyn Weiner, [Roger] Chaufournier?

KNAPP: Do you mean, was I on this mission?

WEBB: I don't think so. They were there for maybe a year.

KNAPP: Yes, I do remember something about this. Let me tell you about Peru, just—I think it will help build it in my own mind. I had first come into the Bank in 1950 as deputy director of the economics department, and then events intervened and I left the Bank for two years. I went for a year as economic advisor to the first U.S. delegation to NATO [North Atlantic Treaty Organization], as I think I mentioned earlier, '50-’51. And then '51-’52 I went to Brazil as the head of an American economic mission, so-called Comisarmista [ph], that prepared a development program for Brazil and founded the Banco de Desenvolvimento and that kind of thing. Anyway, I came back to the Bank at the time of the annual meeting in September 1952, and I kind of assumed at that point I was going back into the economics department, but it was just at that point they organized regional departments. They previously had had just one lending department and one technical operations department, one economics department. They didn't have regional groupings. So they were creating this new Western hemisphere department, and I was asked to be the director on the experience of my year in Brazil, which was supposed to make me an expert on Latin America.

So soon after—I had only been in two or three months when I decided I really have got to go out and do a real tour of these countries, or at least a selected number of them, so I think I took something like a month or six weeks and went off to . . .

[End Tape 1, Side A]
[Begin Tape 1, Side B]

KNAPP: . . . west coast. You see, knowing Brazil, I didn't need to go there, and I went down the west coast. So that took me to Peru. Orvis Schmidt was the director of the—in the old sort of operational department before they set up the regional departments, Orvis Schmidt had been the principal figure on Latin America. Do you remember him at all? Did you know him?

WEBB: By name, yes.

KNAPP: He died rather early. Anyway, Orvis was familiar with these countries. He had been in Peru before and he, I think, accompanied me on this trip. I'm not entirely sure of that. No, no. I guess the only fellow with me on the trip was Ernesto Franco, Franco-Holguin. Did you know him? A Colombian?

WEBB: No.
KNAPP: He was with the Bank for a long time and, of course, Spanish-speaking and Colombian.

But, anyway, I went to Peru, and we had projects there. We had a power project. We had the Port of Callao; highways. I remember learning upon arrival there that there was a French engineering group in town trying to sell the idea of a metro, a subway. Do you have a subway in Lima now?

WEBB: No, but the French have never given up. They're still trying to sell us on that.

KNAPP: They were even going to run a branch of this subway to Callao. Oh, well. We threw up our hands. We said, "Oh, this is terrible! This is awful! If this happens, it will destroy your creditworthiness." We had kind of primitive ideas then about creditworthiness. So, yes, of course Chaufournier and Mervyn Weiner, yeah, they both came on the economic staff in this Western hemisphere department. I don't remember that much. Did they spend some time? Was it a kind of resident mission, do you think?

WEBB: Well, that's what I've been told by a friend, a Peruvian friend of mine, who claims that he was their assistant.

KNAPP: I see. Well, Roger Chaufournier is right around town, you know.

WEBB: He is?

KNAPP: Oh, yes. He lives here, and he's in good shape. I was talking to him not so long ago, so you can get a hold of him, I suppose. Mervyn Weiner, for that matter.

WEBB: We have spoken with him.

KNAPP: He's in town?

WEBB: Yes. That was before we knew about it. That was before I knew about this.

KNAPP: Colombia at that time was a very interesting country, because Colombia was in the throes--and I mean throes; very difficult problems--of developing a national communications network and trying to get the railways and the highways built. You know, at that time all the traffic down the Magdalena Valley went by river. One of the big national projects was to build a railway. You see, the railway ran from Bogota down to the port on the Magdalena River, and then things would get shipped out by boat. One of the great projects was to build a railway from the coast up the Magdalena Valley.

And then the other great project was to connect the various cities and regions of the country, Medellin, Cali, Bogota, connect them by adequate roads because the roads were perfectly miserable. It was terrible country in which to build roads because of the soil conditions. The landslides problem--you know, it's light volcanic soil, and the
landslides were always closing the roads, which were in any case built to very modest and moderate standards and were not standing up under the truck traffic that was developing, you know, heavier trucks, heavier loads, heavier wear and tear. So we were already, at the time I went there in '52, engaged in a kind of a nationwide road building program. But they always, as in Peru, they always, the engineers designing these roads, underestimated the danger of slides--mudslides and rockslides. What was the road over to Pucallpa?

WEBB: Oh, yes, Tingo Maria to Pucallpa?

KNAPP: Yes, that road was built and rebuilt and an immense amount of money spent on it, rebuilding roads that had been damaged or destroyed by landslides and earthquakes. Same is true in Colombia.

WEBB: That follows.

KAPUR: And Nepal.

KNAPP: Nepal. Yes, I can imagine.

WEBB: I don't know what you can do about that.

KNAPP: Well, basically, it's a matter of where they make their cuts, you see. You try to make a cut naturally with a maximum angle to minimize the amount of soil you have to excavate, but if the cuts are too vertical, then the sides are going to cave in. If you knew really what was going to happen and took a real long-run view, you'd made a much bigger cut, a much more expensive cut in the beginning to minimize maintenance and reconstruction expenditures later on. Well, the engineers said they knew all that and they were going to, you know, take cognizance of that, but they always, I think, underestimated the forces of nature.

WEBB: Do you remember [Lauchlin B.] Currie's mission?

KNAPP: Lauch Currie? I knew Lauch Curie, and when you speak of his "mission" I'm trying to remember. Was that a mission to Colombia?

WEBB: Colombia.

KNAPP: Yes, that's right. That had happened, I think, just before I came in, just before I came in. You see, I came into that business in '52, and it might have been '51, the Currie mission. But Currie himself was already taking up residence in Bogota, I believe, or maybe Medellin—I think it was Bogota--but at any rate Colombia, married a Colombian woman, was settling down.

WEBB: Yeah, he's still alive and kicking.

KNAPP: He is?

WEBB: Yes.
KNAPP: I'll be darned!

WEBB: I haven't seen him, but I've heard about him.

KNAPP: And he's still living in Colombia?

WEBB: Yeah, yeah. Still writes, gets involved.

KNAPP: If you ever see him again, say hello from me.

WEBB: I sure will.


WEBB: In the '50s, when we look at the loan record country by country, a lot of the first loans to Latin America seem to be around mid-'50s. You find one loan and then a gap. Then things jump to another level in the '60s. I guess you were involved in many of those early loans.

KNAPP: Well, from '52 I was involved in all of them, when I became director of the department.

WEBB: How was Latin America seen by the Bank at that time? Was it seen as a frontier for the Bank, an adventure moving out of Europe?

KNAPP: Well, certainly, as a frontier compared to Europe, but the European experience--well, in the first place, I didn't share it. I didn't take part in it except that I was in the State Department at the time in charge of the office that dealt with World Bank matters, so I knew the World Bank loans in Europe. But that phase, I don't think left any lasting impress on the Bank at all, really. I don't think the Bank went into Latin America or other developing countries with any background of established procedures or concepts or thoughts that arose out of Europe. I guess the main reason I'm saying that is that the European financing was not project financing, you know. It was just general purpose program lending, whereas when you got into the developing countries, Latin America or otherwise, the vehicle for lending was project lending and, more than that, the range of project lending was pretty much infrastructure projects, I mean large electric power, highways, railways, ports, telephones, [inaudible] a little later maybe, water supply, irrigation works. But anyway they were large-scale project lending with a lot of physical engineering and works involved, which was (A) totally different from the project lending or from the European lending and (B) more or less uniformly applied, whether it was Latin America or Asia or for that matter Africa, although African lending came more later on as countries achieved independence, but there was lending in Africa under the sponsorship of the metropolitan countries and with the guarantees of the British in British countries, the French, and so on. So, frontier? Yeah, it was new frontiers. It was new—it was new for the Bank a new type of lending, to move into this project lending.

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WEBB: The Bank was really inventing development lending, wasn't it, at the time, moving out of--in Europe, as you say, it was a different kind of . . .

KNAPP: Oh, yes. It was totally different. It hardly had any relevance.

Yeah, I wouldn't say it was all that inventive. The situation that presented itself, taking the Latin American countries, because I suppose over half of our lending in those early years was in Latin America, so that would be a very good kind of sample. And in the Latin American countries the problem of development was perceived first of all as providing the basic public services--transportation, electric power. And power and transportation, I would guess, constituted in the '50s three-quarters probably of total lending of the Bank and certainly the total lending in Latin America.

WEBB: Do you think there were certain maybe subconscious [inaudible] models that the Bank was drawing on as it formulated that lending program? It all seems rather logical now, but the obvious things, to start with roads and so on. Was it quite like that, or were there . . .

KNAPP: Well, I suppose there might have been. You see, the Bank at the time was a very American institution. I mean, it was dominated by--there were a lot of British, Europeans--but it did have an American president, an American vice president, all the American engineers and I suppose--I never thought about it in this way and I wouldn't want to pursue this theme too strongly--but I suppose that the opening up of the American economic sphere across the continent could be compared with it, the opening of the railways and the highways.

Colombia certainly, more than any other case that I think of, Colombia was that case where there was a whole country which--it wasn't exactly moving out from east to west to a frontier, but it was bringing together these almost autonomous regional states that constituted Colombia. It's amazing how little contact there was. I drove the roads from Bogota to Cali and to Medellin in those days and, gee, they were really primitive roads! Part of the difficulty driving them was that already some of them were under construction, so that you would come to these sections that were under construction you had to go on detours and the detours would really got you out on the ground. But I suppose the idea of knitting together a large expanse of country was in a certain extent applying the model of the development of the American continent.

WEBB: That's with respect to the kind of loans or what they were for. But the Articles of Agreement didn't really determine that the Bank would be doing project lending, infrastructure. It was--somehow it grew out of collectively the minds of the staff. In the '30s and the '20s [inaudible] earlier on, how were these countries financed--bonds to the government sometimes . . .

KNAPP: Well, some of those were railway bonds, port bonds. I don't think so much highways.

But let me put this point to you about--that it wasn't perhaps quite so much the staff saying, "We want to get into the project lending business," but it was the demands

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that were made on the Bank by, say, the Latin American countries. And the Charter, it's true, certainly—I don't think anything in the Charter would lead you particularly to infrastructure projects—but the Charter does, of course, provide that except in exceptional circumstances that loans should be for specific purposes, specifically identified, productive purposes. And I think the lending program of the Bank in those years must be thought of—perhaps even primarily—as a reflection of what demands were placed on the Bank by the borrowing countries. What did they want to use the Bank for? And it was large, capital-intensive, large projects that required a one-time capital commitment: big irrigation dams, big power projects, massive trans-Andean highways. Those were the things where a country, at least if it was sensible, a country before it embarked on or committed itself to such a project would want to accumulate behind that financial commitments. It could make its own financial commitments out of a budget, but the demands were very heavy and very heavy commitments that had to be made in foreign exchange for placing orders for power equipment, say. And there were big one-time needs to make, you know, up-front commitments to buy massive and very expensive power machinery. So they would think of coming to the Bank mostly when they were confronted with some project that had, that required massive up-front capital commitments, and those were these big infrastructure projects.

You know, if it was a road, if it was a project for, say, highway maintenance—I mean, later on we made a lot of loans for highway maintenance—but generally speaking one could say that if it was a loan for highway maintenance, the countries might expect to finance that out of their gasoline taxes, say. The requirements for imported machinery and equipment were modest relative to the big investments needed for, you know, a massive earthmoving project, a dam or major highways. You have to have foreign contractors, you have to have foreign exchange, and you had to have massive initial financial commitment. I think it was the demand side that set the pattern at the Bank, rather than any preconceptions by management or staff.

WEBB: Now that we're on the Charter, in another interview you referred to what you called the “quirkiness” of the Charter in some respects having to do with the speed with which it was all thrown together.

KNAPP: Yeah. That's right. It was thrown together very rapidly after they finished the Fund charter.

WEBB: Right. I wonder if you—in that other interview you didn’t give, I think, examples of what you had in mind.

KNAPP: Well, let me see. Let me make a comment that's not quite a direct answer, but just one thing. They took over from the— you see, the Fund Charter had been worked out fairly laboriously—although bear in mind that the whole darned Bretton Woods Conference only took about three weeks, although there had also been pre-conference sessions, Atlantic City and other ones, especially with the British. But anyway the Bank did come very late in the game and the kind of Fund Charter was, on organization of the president and the board and so on, was just taken over massively and put in for the Bank, changing the title of the chief executive from the managing director to the president.

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But my comment on that is only that it is interesting how, in spite of the identity of the provisions in the Charter, how the relationships between the Board and the President were very different in the two institutions--and still remain very different today. I mean, the World Bank president is a much more powerful, autonomous figure in the institution than the Fund managing director. And there’s just a thing on senior appointments. I mean, in the Fund it’s a lot of manipulation and consultation with directors and countries and so on, and in the Bank there is, yes, maybe a little of that but very, very little compared to the Fund.

Well, and then, I think I did talk about this last time and I commented that this reflected the key position of the president of the Bank in raising funds for the institution, especially at the time. This is, of course, why the president has always been an American, because he was the one who was going to command confidence in the capital markets, being at that time predominantly the U.S. capital market, and he was the one who could say to the Board, "Look, we can't do that. I won't do that because to do so would be damaging to the creditworthiness of the Bank in the capital market." The IMF director has no such function or responsibility and for that reason, I think, much less power.

Well, on the matter--there are some clauses--I must say at this moment I'm not sure I can reproduce—there are some clauses in the Bank Charter having to do with currency, evaluate currency, exchange rates, currency calculations, and . . .

KAPUR: Maintenance of value.

KNAPP: Maintenance of value, yes, yes, although the maintenance of value--that’s pretty much the same as in the Fund--the maintenance of value of the capital. But there are some provisions on the Bank side which seem to have got in there very hastily and which—there's one in particular (I can’t remember it) which just nobody has ever understood! It isn't that it was adopted unwisely from the Fund; it's rather that it doesn't seem to make much sense at all. Did you know, for example, that there are provisions--they are totally dead; they've never been invoked--but there are provisions in the Bank Charter that if countries get in difficulties in servicing their debts that under certain circumstances and for certain periods and so on they can pay their debts in local currency. Yes, there are!

WEBB: Have they ever been used?

KNAPP: No. Never. They are hedged about with some conditions which makes it a little difficult to use them, but I don't know whether that particularly grew out of the Fund. You know, of course, all Fund loans and local currencies and foreign exchange are the stuff of Fund business, but I don't think at the moment I can be more specific.

WEBB: There's another area that we would like to talk over. It has to do with IDA.

KNAPP: Excuse me. What I might say is this: there are several rather curious passages in the Bank's Articles that deal with foreign exchange and local currencies, and what I would say is this, that they reflect the fact that they were being written by

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kind of monetary experts. They weren't being written by banking experts or investment experts. They were being written by monetary experts, and some of them come out very curiously, but it stems back, I think, to the fact that the people that were there were kind of primarily monetary, central banking people, not the lending banking people or investment banking people. All right. Excuse me.

WEBB: Well, IDA allocations. It's a little hard to get a fix on that. All the obvious criteria are always mentioned. The problem is how it works out in practice, really, in particular how much performance is really a criterion.

KNAPP: Well, I'd say it was an important criterion. Certainly. You see, what you can say about IDA allocations is--and I've been through this one hundreds of times--what you can say is that there are these criteria: size of country, size of population, availability of projects, country performance, lack (the negative test) lack of creditworthiness, and so on and so on. So you can list the criteria fairly easily, but, as you are implying very much from your question, having listed those criteria tells you very little about allocation, because allocation--sure, you can say, well, it's a function of all these different criteria, but just take the size of country and population criteria: that was never followed in any rigid manner. I mean, had it been followed in a rigid manner, you would find that the annual IDA commitments per capita, say—if you take population and size of country--per capita would have been the same. I mean, you could—had you taken (or I guess one way of putting it is) had you taken population as the sole criterion, then if you looked at per capita allocations, you’d find uniform per capita allocations. Well, but you don't find that. You find widely varying per capita allocations, but the first point in talking about allocations is, what I would say is, look at the per capita figures.

Right at the start was the situation of India and Pakistan. And on a per capita basis India and Pakistan would have been "entitled," if you want to use that word, to something like two-thirds of, or maybe even more, maybe 70, 75 %, of IDA funds. And so the problem there was to say, "Oh, my." That's just, you know, more than you can do in a world where you've got a lot of other member countries who are clamoring for assistance, and so we put a lid on India and Pakistan at 40 %, just arbitrary. One way of putting it, that people put at the time, was that the U.S. was putting up 40 % of the funds, so the remark--it wasn't a very deep remark, not a very deep philosophical reasoning—was, well, there would be something wrong about any country putting up more than 40 % of the total. You see, the U.S. had in terms of, if you wanted to look at it in terms of relative GNPs, the U.S. at that time might have had 60 percent of the GNP of the contributing countries, but they only contributed 40 %. So what we said was, "Well, it would be really improper for any country, whatever else might be said, to have to contribute more than 40 % and on the other hand for any recipient country to receive more than 40 %." I think perhaps my figure of 40 % is on India alone. Do you remember?

KAPUR: That's what you said that no one country should get—in fact, I think India in the first IDA got a [inaudible]

KNAPP: I think what the--in those early IDA days India got 40 % and Pakistan 10 %, so that made 50.
KNAPP: Again, if you look at the actual per capita allocations, they vary very much, not only in the sense that India and Pakistan are low, but even among other African and Asian countries the variations are very considerable. Part of the explanation of that is--when I'm talking about allocations now, I'm talking about year by year allocations. You really ought to let it say a five-year average, because year by year they would be much affected by particular projects. I mean, IDA never had a large amount of money and particular large projects would require the commitment in one year, you know--not the disbursements, but just the commitment--in a single year of very large amounts. So we just took for granted that that might happen and that what you ought to look at more would be the five year, say, running average. And that would be affected very much by performance, by performance on general macroeconomic management, by performance on sector management, and specifically on previous projects that had been financed under IDA credits or Bank loans in the case of lending countries and so on. We're looking at performance under previous loan commitments.

WEBB: Did there come to be a kind of commitment to countries with respect to how much IDA money they would be getting, maybe not year to year, but on average?

KNAPP: No.

WEBB: That was more of a commitment than for ordinary lending?

KNAPP: Than for Bank lending, you mean?

WEBB: Yeah. Or was it equally subject to . . .

KNAPP: We always, I must say, tried to retain flexibility and not get into a position that this country X is entitled to 10 or 12 million dollars a year. Of course, in the case of Bank loans a major reason for not making commitments would be a deterioration in the country's creditworthiness. That element was not present in IDA. I mean, you started with the proposition that they weren’t creditworthy for Bank loans, so that would not be an excuse for reducing or terminating lending.

I think countries always liked to push us in the direction of commitments, of forward commitments. One of the reasons you couldn't make forward commitments for IDA, which was again different from the Bank, in the case of the Bank it was pretty much always assumed that the Bank would find the capital necessary to expand and develop its operations at an expanding rate, whereas in the case of IDA we always kind of hovered on the edge of "Well, maybe this is going to be the last IDA replenishment." I wouldn't overemphasize this. There was never really any serious risk of the termination of IDA, but it was always a hard fight to get the next round of funds, and a hard fight to get the next round of funds at a level higher in real terms. I think we usually felt fairly confident that we would have a renewal in nominal terms, but, you know, in some of these periods inflation was in sizeable figures and a sizeable

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reduction in the real value. We certainly didn't like to be, to get into the area of forward commitments, and we would just say to countries, "Well, we will--you see what we've done in the past, and we're going to try to expand it in the future as the real resources of IDA are increased from year to year." They are over five-year commitment periods, but trying not to create the sense that a country was quote entitled unquote to a certain IDA allocation.

Now I want to add—I mean, to be frank about it, I want to add one other element to IDA allocations which is not normally listed, which is the pressures from the sponsoring metropolitan country . .

WEBB: For and against?

KNAPP: . . and mostly the British and French. I mean, the British and the French would be pushing and agitating for more allocations to African and Asian countries of which, you know, British African countries, say, the French African countries. And then there came the part where the Japanese came in as important capital contributors, where the Japanese would be pushing hard to get Southeast Asian countries into the IDA column.

WEBB: These were mostly pressures in favor of countries?

KNAPP: Yes, yes, pressures in favor of countries.

WEBB: Not many cases where objections were . . .

KNAPP: No, well, there's the familiar business of the U.S. objections about human rights in a country and all that sort of thing, but for the moment I was talking about just pressures from metropolitan countries to favor their ex-colonial territories or, in the case of Japan, the countries of East Asia in which they had a special interest and stake.

KAPUR: I'm not sure of the previous IDA negotiations, but the last replenishment and negotiations itself, the regions were, you know, 80 % of the money, one already knew where exactly it was going--15 % for India, 15 % for China, 48 to 50 % for Africa, so you already knew in advance, and the regions, and that's what--in fact, in the last, I think, Zambia, in the loan introduced to the Board, which is the Zambia [inaudible] and so on, the director for Southern Africa region uses the words, "We’re giving Zambia its IDA entitlement."

KNAPP: Really?

KAPUR: And that's his exact words.

KNAPP: Well, I'm talking about the ‘60s, essentially.

KAPUR: I'm wondering if that has changed.

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KNAPP: It has changed, very definitely. In the replenishments, I know--I chaired some of those IDA replenishments and then I went at the later stage, even after my retirement, I worked on IDA replenishments and so on. And it has certainly changed because--it has changed very much in terms of not only of the country allocations but in terms, you know, the sector allocations, the general lending objectives, all that. I'm also familiar with that in the case of the Inter-American Bank, where the countries have tended to impose more and more formulae and conditions and limitations and guidance in the replenishment agreements. If you look back at the earlier replenishment agreements, you won't find any of that. I would say perhaps, yes, perhaps the India 40% might well have been discussed, but very little, very little beyond that and certainly nothing like the present system.

You see, there is a curious thing to bear in mind there. At least in my day, or mostly, the deputies that were sent to these IDA replenishment meetings were not Executive Directors but were people from the home base. I mean, the American, the British, the French, the Japanese would send people right from their finance ministries, and the Executive Directors here representing the same countries were, tended to be rather unhappy about that and tended to think that anything like the directional lending, allocational lending, and so on, that that was their business in the Board and not the business of these deputies representing capitals. Now, in some cases Executive Directors did appear at the replenishment meetings, but usually the [inaudible]. So I think that was a consideration that helped us to avoid having conditions imposed at the time of the replenishments.

WEBB: I know you have to catch a plane.

KNAPP: Well, I'll tell you. What's your time? I could be here until 4:30 if you wanted.

WEBB: Really? Oh, we’d be delighted.

KAPUR: Would you like some coffee or something? I could bring it from downstairs?

KNAPP: Why not? Yes. With milk.

KAPUR: With milk and sugar?

KNAPP: No sugar.

KAPUR: Richard?

WEBB: Yeah, the same, please.

KNAPP: I'm not actually taking a plane until later this evening, but I’m having dinner with my daughter and I’m staying with my daughter who just bought a new house; I’m still helping her move in. I'll get back there about 5 o’clock.
May I just go on, because I might elaborate on the point I just made? There was a certain jealousy on the part of the Part I directors in the Bank that decisions not be made kind of by another group, but of course most of all the Part II directors sitting in the World Bank Board didn't like to have decisions being made by the group of, by the IDA donor group, and those kinds of, if you like, power plays or power conflicts gave us, I think, in those early stages a large, large degree of freedom from restrictive conditions of any kind being imposed at the time of the IDA replenishments. In fact, come to think of it, I wonder that it has gone so far. And there must be now a lot of feeling on the part of the Executive Directors in the Bank, you know, the IDA directors, both Part I and Part II, that these replenishments are pretty heavily laden down with, essentially with conditions imposed by the donor countries.

WEBB: Which erodes the multinational character.

KNAPP: In a way. It certainly excludes the Part II countries from any voice in them and even excludes the persons, the personalities, the Executive Directors of the Part I countries.

WEBB: Do you have a sense of how important all these earmarked funds that now exist in the Bank have become, which tend, I would think, tend to do the same?

KNAPP: Well, I'm amazed at the extent to which those earmarked funds have grown up because we used to--you just uniformly say--we wouldn't accept earmarked funds in the sense of--we would expect funds to be supplied to the institution for the management of the institution according to its best judgments as an institution. But I know now there are all kinds of managed funds and tied funds. And particularly in the area of technical assistance and that kind of thing, I'm told there are dozens of funds—funds contributed to be used for some purpose or to used for such--tied to nationals of different countries. I think it's deplorable!

WEBB: One interpretation I've heard is that a lot of it is Japan, frustrated at not being given a bigger voice on the Board.

KNAPP: It's an interesting comment. I hadn't thought of it, but it's probably true, probably true.

WEBB: We talked to the Japanese ED a few weeks ago. I was amazed at how outspoken he was. It was a language that I hadn't expected at all. I thought he would be more diplomatic, being Japanese and being a board member, but he was very outspoken about the discrimination, the Japanese people being tired of this situation, his view. I mean he was . . .

KNAPP: I hope you will find ways of putting that back to the Bank people to--I think maybe even to Qureshi or Stern—because that's important. I can tell you to my knowledge that part of the problem has been that when we went after really top Japanese people that would be highly qualified, we couldn't get them.

WEBB: Yeah.
KNAPP: The Japanese wouldn't release them or they didn't want to come.

WEBB: Salaries had to do with this?

KNAPP: Salaries have been.

WEBB: Career routes, too, I think.

KNAPP: Yup, yup, that's right.

[Interruption: coffee arrives]

WEBB: I was remembering our conversation with the Japanese ED.

KAPUR: Oh, yes. He was very vehement. I was wondering on the topic on which you started off in the conversation, which was this whole recent thing of the private sector. Historically, I can see a great tendency how in the 50s the Bank was sort of much more sort of hesitant about governments, much more sort of towards the private sector, and then in the '60s and '70s sort of lend much more to governments, relatively speaking. And now, of course, you see this sort of swing in perhaps a more extreme fashion, but I was wondering especially about the move of the DFCs [development finance companies] out from IFC [International Finance Corporation] into IBRD [International Bank for Reconstruction and Development]. Sort of how did that happen? What were the reasons and sort of implications of that? I'm sort of seeing that as one part of this perhaps swinging back and forth by the institution over the decades on this issue.

KNAPP: Yeah. Well, let me see. I'd have to think a little about that. And of course, you've got Bill [William] Diamond as your great expert on this subject. There was a—well, as far as lending to DFCs is concerned, it seems to me naturally to be a part of the Bank lending activity, rather than the IFC. At least, I start thinking that way, and I start thinking that at the time that the responsibility for DFCs was put over into the IFC, the thought was a mistake and it's not for me a cause any surprise that it's back to the Bank. Now, why do I say that? Well, I suppose because so many of the—first of all, so many of the DFCs were themselves public institutions, although they didn't start out that way. I mean, they started out lending almost entirely to private institutions. Colombia, of course, would be an example, where we were lending to half a dozen DFCs, private DFCs. But nonetheless, in all these DFCs the government was usually—well, in the first place, they were guaranteeing the loans. In the second place, however, on that score you might say, "Well, move to the IFC so as to escape the requirement of government guarantee," but governments in all these cases were supplying capital and tax incentives and all that kind of thing, so to me a DFC in a developing country, to me is, raises all kinds of issues of relations with the government.

And the IFC management, staff, experience, hasn't been and has never been in relations with governments. I mean, they operate in the private sector. They lend to private-sector enterprises in their countries concerned abroad. I don't think they are well suited by experience to deal on these issues with governments. The Bank

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profession is a profession of dealing with governments, and so certainly with respect to public DFCs, but also even with respect to private DFCs because of this input of government capital and tax concessions and so on, it seems to me that the negotiation of terms for the initial establishment of a DFC is a natural part of--you know, DFCs are also a part of the general capital market of a country, and in most of these developing countries the capital market consists very largely of public institutions. So I understand that recently, I mean just very recently now in connection with this new U.S. crusade about the private sector, that one of the things they've been urging is that responsibility for development finance companies be transferred to the IFC. Is that right? Have you heard this?

**KAPUR:** Yes, well, they would like for everything to sort of go towards private, I mean, sort of IFC and IBRD sort of start to do joint things and there's all sorts of . . .

**KNAPP:** But specifically on development finance companies that the responsibility should go Well, if you go to the IFC, at least--you see another problem, of course, another problem I should have mentioned is DFCs going around the world require pretty massive loan commitments which have been far, just far beyond the capacity of the IFC in terms of their capital-raising capacity. Now, you could still conceive a pattern in which the IFC would kind of manage the DFC relationship and provide equity to DFCs and, of course, deal exclusively with private DFCs and act, so to speak, managing the World Bank portfolio of DFC loans. In other words, you'd rely on the IFC to do the loan negotiations and prepare the loan documents for a loan from the World Bank and have it go up to the Board as a loan from the World Bank, processed by IFC. I've heard people talk about that, and I don't think that works. I don't think the Bank area departments, country desks, and so on, can delegate out to the IFC a part of the lending function. But just how that worked out over time, I suspect it had something to do with personalities, too, but Bill Diamond is a better source of thoughts on that.

**KAPUR:** Okay, but if you place it in a larger—I'm not sure of the word larger--larger philosophical sort of context of market in the states or market and states or markets and governments or public and private sector, how is that whole . . .

**KNAPP:** Well, are you referring to the question of whether DFCs in the developing countries should be private or public?

**WEBB:** No. I'm sort of seeing that as an example of the larger debates or what the Bank has--how it has seen this whole public versus private sector.

**KNAPP:** Well, you see, I think it is ignored in a lot of the criticisms of the Bank, that they haven't done enough for the private sector, that all this kind of intermediary lending through local industrial institutions or for that matter through local agricultural credit institutions and agricultural banks, that all that, the intermediaries may be public or they may be private, but the ultimate consumers, the sublenders, are in the private sector.

I do think that the Bank probably went too far in trusting publicly owned DFCs to service the private sector properly. There was too much opportunity for favoritism,

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corruption, misdirection of loans or withholding of loans from people in the private sector because government bureaucrats either favored them or were hostile to them. I think the--it's just the fact that a privately-owned DFC, which is itself dependent on earning a profit from its operations, is going to pursue a better, more rational, even more productive lending policy just because its own future and profit and rewards and emotions of staff, all of this would depend upon its loans, its own subloans being productive and being serviced, whereas a public institution that is charged with that task--you know, governments will often say, "Well, we want this DFC to be a public institution because we want it to make loans to develop the machine tools industry." We--I think of Pakistan, say. "We want to develop machine tools in the country," and so on. And a publicly-owned DFC will be under pressure to finance machine-tool industries, so you can--whether or not they are economic, whatever level of protection they require, and so on. The private institution would be more guided by economic criteria.

WEBB: I did a survey recently of agricultural and development banks in Latin America, about three years ago, I think it was, a short paper for the Inter-American Development Bank

KNAPP: You did it?

WEBB: Yes, I was asked to do this. Very sad story all around, even in cases that have looked good at some time or other, like Mexico, seem to have been just dominated in the end by what you were saying.

KNAPP: Favoritism?

WEBB: All of them being public, all the ones I was looking at.

KNAPP: Yes. Agriculture credit institutions almost without exception are public, and of course they are being public institutions, and one of the manifestations of that is uneconomic levels of interest rates, subsidized interest rates which, whatever else may be said for it, nonetheless can easily distort the patterns of investment and lead to unduly capital-intensive investments of funds.

WEBB: They worked better before inflation began to go up.

KNAPP: Yes.

WEBB: It didn't get so far out of line.

KAPUR: Was this sort of anticipated in the '70s, in late '60s? Was this sort of . . .

KNAPP: Are we back on DFCs now or agriculture? With agricultural banks there wasn't much alternative.

KAPUR: Right. No, I'm thinking of DFCs, this potential to be, to sort of be hijacked, almost, so to speak.
KNAPP: Yes, you see, bear in mind that in India and Pakistan we started with--where is your home, may I ask?

KAPUR: My home is in India.

KNAPP: Which part?

KAPUR: Calcutta.

KNAPP: In Calcutta, okay. Well, both in India and Pakistan, when we started lending to DFCs, those were the classic beginning ones, the ICICI [Industrial Credit and Investment Corporation of India] and the PC [Pakistan Industrial Credit and Investment Corporation]. They were organized as private institutions, private shareholders, and both of them over the course of time became government institutions, mainly because their shareholders were nationalized and, in effect, they became public institutions. And we had to face up to that. Were we going to continue supporting these institutions? In both cases. . .

[End Tape 2, Side A]
[Begin Tape 2, Side B]

KNAPP: . . . question was how will this, their conversion into publicly held, publicly dominated institutions, how far will that bring a degeneration of their business activities? Well, we continued with them but, at least in Pakistan, with some pretty unhappy results.

In the case, of course, agricultural banks you don’t really have any, much choice between private and public, but we did try to put conditions on loans with respect to such things as interest rates or with respect to the volume of loans to a single borrower or other things to try to preserve the businesslike administration of the institution. But it's pretty hard sometimes, in that your main sanction was just to say you don't make the next loan.

WEBB: Yeah. You mentioned that you are involved in a committee now, looking at private-sector lending.

KNAPP: Yeah. Well, not now; three years ago. There is a report which is, I'm sure, available to you in the Bank that we did. We had an international . . .

WEBB: Secretary's? Would it be a report to the Board?

KNAPP: Yes, yes. It was a report to the president but then transmitted by the president to the Board.

WEBB: Would it have a name, this report?

KNAPP: Some people call it the "Knapp Report."

WEBB: I see. Okay.

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KNAPP: If you ask--I was the chairman of the commission.

KAPUR: I think it has been requested by the office, copies of the Knapp report.

WEBB: Right. How did you see the [inaudible]

KNAPP: You know, just in that period--parenthetically--there was another "Knapp Commission" which achieved some considerable fame. It was in New York City, and it was a commission to examine the police department and examine issues of police brutalities and all that sort of thing--the Knapp Commission. So we never wanted to call this the "Knapp Commission," but it came to be known, as I understand, as the "Knapp Report." Excuse me. You were . . .

WEBB: Where did you come out on that question in the report?

KNAPP: On which question, now?

WEBB: Well, was not the question--I assumed the question was what an appropriate balance might be.

KNAPP: Oh, no, not as such. No, not as such. Our terms of reference asked us to report and make recommendations on how the World Bank might more effectively promote the private sector in developing countries--this has nothing to do with foreign private investment--development of the private sector in developing countries and what organizational and procedural changes might be made within the area of World Bank, IFC, and MIGA [Multinational Investment Guarantee Agency]. So, we were—we, so to speak, took it for granted that promotion of the private sector in developing countries was a good thing and how could it be done more effectively?

And at the time we had several meetings with the Executive Directors. My commission was established by the president, but in establishing it and in his process of informing the Board about it and so on, the Board members insisted (rather, I think, somewhat embarrassed by this insistence) that--they first said, "Well, this should be a commission established by the Board, reporting to the Board." Well, he managed to push that one off, but he said, well, but as a sort of compromise, it was provided in our terms of reference that we should, during the course of our work, that we should keep the Board informed of the progress of our work and give them an opportunity to express their views. So on, I think, three separate occasions we--essentially, we worked on this report over a period of three or four months, I think--and right at the beginning and intermediary stage and at about the end when we were formulating our final report, we had meetings with the Board. They were not "Board meetings;" they were informal sessions at which Board members came to meet with us, and I must say that although the U.S. Board member was aggressively pushing all the needs of the private sector, it never became an issue of, you know, what proportion of total Bank operations should be private sector. It was--maybe he wishes now he had thought of doing that way, although we of course would have resisted him.

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And on the sensitive matters of relations between Bank, IFC, and MIGA, we never made any fundamental changes in the existing division of responsibilities. It was at that time that we discussed somewhat this matter of DFC financing, should that go back to the IFC, and there was a question about whether IFC or MIGA should have the function of promotion of foreign private investment, “promotion” in the sense of having, sponsoring international conferences to promote foreign private investment, advising countries on their investment regimes, how they might set up legally--taxwise and otherwise--to attract foreign private investment.

KAPUR: The FIAS, Foreign Investment Advisory Services?

KNAPP: That's right, that’s right, which was in the IFC at the time.

KAPUR: And now with MIGA they're still fighting it out.

KNAPP: Well, after, you know, I said in the end--I heard great fights from both sides of this--I said, "Well, why am I or my commission asked to judge a question like that, whether we put it?" I said, "You, MIGA and IFC, sit down there and decide how you’re going to do it." I thought they would come up with some distribution of function, division of labor. I said, "You fellows sit down and agree on how you want to divide the labor, and we'll recommend it in my report." Well, we never could get them to agree, and they ended up with saying it all should be joint. A joint--FIAS is now a joint instrumentality of IFC and MIGA, which is . . .

KAPUR: If you’re talking to either one of them, they’re [inaudible]

KNAPP: Pretty silly.

KAPUR: I was wondering if we could find out--one thing which was in your previous oral history you sort of mentioned the sort of things Mr. McNamara had, the numbers, the statistics, and you seemed to have sort of slight bit of skepticism about the numbers. In sort of looking at the Bank's projects and the numbers which on projects, especially in the '70s when it moved to the so-called new style projects, first of all, the methodology for calculating rates of returns and so on for, say, population or education, primary education projects, was much less sort of well defined, that methodology, relative to say more hard projects.

KNAPP: Calculation of economic rate of return?

KAPUR: Right. Then the quality of numbers seems to have been even less, sort of, at least, undependable. I just was wondering how you sort of saw these, I mean because it’s--the numbers one sees in the project work presented to the Board are good, are the way to legitimize that, look, since the rate of return is X, that is a good project and, you know, there are so many beneficiaries and that. But in talking to a lot of people who have sort of been involved in this, they have the--either they have become cynical or have—but they seem to have a slight—they share a good deal of doubts about where these numbers come from. I was just wondering how you saw it then.
**KNAPP:** Well, on education projects and population projects there were some rudimentary attempts to put forth a rationale in terms of economic rate of return, but I think everybody recognized these as rudimentary. And rudimentary also means very imprecise and also means really not—I don't think anybody took them very seriously in terms of the justification for the project. Perhaps the—perhaps my principal comment on all that would be that it was probably a mistake to even try to quantify these things, although I recognized at the time the argument that, “Well, how can you properly determine the inter-sectoral allocation of investment without some idea of rates of return in these areas.”

But I don’t, I can't really exactly remember Bob McNamara in this connection, but I feel safe in saying this: that when he started out he would be pressing for figures, “Greater returns. I want to see them!” And his pressure probably induced some people at the staff level to press beyond the boundaries of the state of the art, say, in trying to make such calculations. But Bob was too sensible also to—I mean, I'm sure he was disappointed with the results in the end, but too sensible to insist any further upon quantification in such unquantifiable areas.

You know, it's a dream of a model-builder, say, to try to look at population levels in a country or levels of education in a country and relate them to economic development, advancement, and to generate some kind of concept of investment in those areas. Investment in education: what does it yield in terms of productivity of people? What will it yield in terms of future tax revenues based upon the development of their skills and all that? Nobody took it too seriously. We probably pushed it further than it needed to have been pushed.

**WEBB:** In education and population and in the social areas in general—health, too, I guess . . .

**KNAPP:** I guess health, yeah. You see, water supply, that's a very difficult area because--water supply, to the extent that it's supplied for industrial use, that's something you can kind of quantify, rates and all that, but when it comes to quantifying the health impact of household use of cleaner water, I'd have to put that among also pretty fuzzy speculative areas.

Or take nutrition projects--we had some nutrition projects.

**KAPUR:** I was wondering, I mean much of the whole ’70s poverty-oriented projects had some elements of these, say even the areas of rural development projects. Do you think that the methodology or the numbers were . . .

**KNAPP:** Well, you see, there you get into an area, another rather different area, of not exactly how do you measure economic rates of return but how do you measure social rates of return if you want to take into account the benefits to different levels of income, people at different levels of income? And I don't honestly know how they do that these days in the Bank, but it was during the ’70s, I would say, that we got into, began to get more and more into that area of trying to calculate rates of return weighted accorded to the beneficiary populations. And I think there, I must say, I think there the calculations were—although I always said they in the end become very

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subjective in determining weights. But leaving that point aside, I think we learned a lot from that approach and those calculations. But on the other hand, I don't remember ever—I don't remember ever it having very much operational influence. I mean, I don't remember a project that, for example, that had a good economic rate of return but was turned down because the social rate of return was not.

KAPUR: Or vice versa.

KNAPP: Or vice versa. Yeah.

WEBB: The poverty focus exploded in the '70s. Do you see that as being a real change in operations or mostly a rhetorical change, just in language?

KNAPP: No, I think it was a real change.

WEBB: Really?

KNAPP: Yeah, I really think so.

WEBB: In the structure?

KNAPP: This kind of analysis, figures coming in order, were helpful and useful and had an effect, although as I said in the end I don't feel projects standing or falling according to that, but maybe projects got different emphases because of that. Certainly in the agricultural field the--well, to take one example, in Central America where a lot of the early agricultural loans in Central America were for cattle ranches, essentially for pretty wealthy entrepreneurial cattlemen, although after all there was employment also on the cattle ranches. And we kind of phased out of that and got into more agriculture in the sense of subsistence crops and peasant agriculture.

WEBB: So it did translate into some changes in the portfolio.

KNAPP: Yes, I would think some changes in the portfolio and in the substance of projects, that within projects more attention came to paid of their impact on the poorer elements of the population. It had an effect on concepts about rates to be--electricity rates, power rates or water rates, transportation.

WEBB: At a macro level in the country strategy discussions, did it become also something that had some weight in the . . .

KNAPP: Yes. In project selection?

WEBB: Brazil, maybe, was the most dramatic case where this might have happened because Brazil was set up as an archetype of a bad case. Did it actually affect . . .

KNAPP: Well, yeah, regionally, say, more attention to the northeast of Brazil. You know, as you put the question, I don't want to overplay this. I don't want to say that it had any deep and profound effect, but it had effects. It was certainly not just rhetoric.
WEBB: Yeah. Well, we've gone over our time.

[End Tape 2, Side B]
[End of Session 2]
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[Begin Tape 1, Side A]

KNAPP: . . . the way I remember it--this goes back a bit!

LEWIS: Okay.

KNAPP: Eugene Meyer, who had been named as the first president of the Bank, quickly fell into a very difficult relationship with the Board of Directors, and particularly with the U.S. director, Pete Collado, Emilio Collado, and that conflict over essentially a power struggle between the president and the Executive Board became so acute that Meyer resigned in less than a year, I believe. And there ensued a search for a successor, and all kinds of people were approached. I don't remember all the list, Bill Martin for one, William McChesney Martin. And nobody found the job very attractive at that time with a Board that was going to be so difficult to handle and with no financial reputation established. They were going to rely principally on the sale of bonds. And, of course, the hope was to find somebody out of the financial community who would give the Bank a good name so that it could sell its bonds in the U.S. market, which was at that time the dominant capital market of the world.

Well, the search finally ended up with Jack [John J.] McCloy, not a financial man but a legal advisor to the Chase Bank and very well known in Wall Street circles and very well admired and respected. But McCloy negotiated very hard as to the terms under which he would take on the job, and it always seemed to me that the most remarkable demand that he made—which one would think was almost impossible for the U.S. government to accept—was that he be authorized to name the U.S. Executive Director in the Bank, indeed, not only to name him but to remove him if he--he would be removed if he didn't work effectively as a team. It was then that Jack McCloy named his great and good friend from Chase Bank, Eugene R. Black, as the U.S. Executive Director, and the two of them teamed up, Black's role being essentially to sell the World Bank bonds. He never paid much attention to his job as U.S. Executive Director. He was out marketing bonds throughout the country and persuading, particularly persuading state legislatures to make the bonds eligible for investment by insurance companies and pension funds and the other institutional investors with which the Bank expected to place its bonds.

LEWIS: That deal must have lapsed with his leaving the presidency there.

KNAPP: Oh, yes. Oh, yes, I should say so. But is that story confirmed, I wonder?

LEWIS: I think so.

KAPUR: That story is [all speaking at once] essentially. I should have a copy of the chapter here. I'll make a copy and bring it to you tomorrow.
KNAPP: I'd love just to scan it. Well, that was, of course, the start. Well, and also vis-à-vis the Board there were a lot of conditions laid down, for example, that the Board would never initiate a loan proposal and would never consider a loan proposal except upon the recommendation of the president.

LEWIS: That's been a very . . .

KNAPP: Now, there is, as you will recall, in the Bank's charter there is a provision that loans brought before the Board must be approved by a statutory committee which consists of top Bank staff and a representative of the country concerned. And that formality, sheer formality, but it is observed to this day—there's always the statutory committee report, and it was really that which--after all, the president named most of the members of the statutory committee, so he already had great power over lending policy. But this deal with the Board reiterated and nailed that down and also gave the president very strong and independent powers over the designation of staff. And all that accounts for the very substantial difference there is in the powers and authority of the president of the Bank as compared with the managing director of the Monetary Fund, because if you read the charter you'll find the practically identical terms, but the president of the Bank has evolved as a far more dominating personality.

LEWIS: Burke, we talked this morning about what we would like to get you to talk about and got a long list. I'll just give you an indication of it and this is for today and tomorrow. For one thing we talk some about the project/policy relationship--and I've got a sort of theory about that that I'll sketch in a moment--and sort of the early policy things that you were into, for one thing, when you went out to Brazil. And then that sort of leads us maybe into some talk about policy economics. You one time in one of your debriefings mentioned the ‘50s as a money-raising period, the ‘60s as the era of economics, and the ‘70s as the era of social programs. And so the--Hollis Chenery wouldn't think of that as being--not as the decade of economics. We'd like to get a little clearer around the transition in economics from the ‘60s to the ‘70s, as you remember it. And then maybe a bit on the ‘72 reorganization and how the CPP [country policy paper] originated as a vehicle, really, for focusing country programs and country policies. And then in terms of the ‘70s, which I'd probably like to spend a good fraction of the time on the old true subject of McNamara's money targeting again a little bit and how Africa loomed up, as you recall, in that decade. There is some early centrally-planned economy work, particularly Romania and Algeria, and obviously a lot of stuff in the social sectors, as your own characterization of the decade emphasized. And then, insofar as there is time, and certainly this would be tomorrow morning, I should think, we'd like to get clear about how OED—now, we know the formal, kind of how it got started--but how you perceived its standing and its standing with McNamara, among other things. You . . .

KNAPP: OED? Is that the evaluation department?

LEWIS: Evaluation, yeah. And then you played a hand in the IDA replenishment--came back, I think, to do that—in ’79-’80? Didn't you do that?

KNAPP: No, I came back--yes, I did come back. Well, in the first place, I didn't come back.
LEWIS: You were already here?

KNAPP: I retired in '78 in June, and then Bob asked me to stay on as a sort of advisor, and I did various things. But the IDA replenishment was one of my principal interests and functions, particularly to mobilize assistance beyond the traditional donors, to get some of the developing countries to make their contributions.

LEWIS: And if we get into--we can ask you some questions about personalities, we'll throw that in, too. But these are the main things.

Let me lead off with this project/policy tension. I don't know how much this is my own fictionalizing, but my sense is that along about the middle of the '50s the Bank got very committed somehow to being a project shop. The project cycle, the project focus was dominant, became later personified by Warren Baum. Of course, you were sitting over the project committee.

KNAPP: Right.

LEWIS: And this really, at least as Warren Baum tells it, kind of ran the show because it had the veto power on the area people, where they were concerned about country policy. And so you can sort of see the area people in the '60s, I think, trying to fight their way out of this constraint in different ways. Your successor, Gerry Alter, had a program of projects that he tried to use as a way of influencing policy in Latin America. Then there is the Bernie [Bernard R] Bell episode that I'm familiar with in India where the Bank really did a preview of structural adjustment lending, in a sense, and my people thought it got egg on its face. I'm not sure it did, but . . . And then there's the whole--another thing in that chapter we're going to have a particular focus on the Indonesia story, another way of effectively combining project and policy work. But I guess my question really is, is this tension between policy and projects in the institution, from sometime in the middle'50s on, a correct perception and, if so, how does that relate to still earlier times when we find like in this McCloy piece, I think, quite a policy emphasis in the Bank? And you yourself were one of a set of people who went off into developing countries with a pretty broad mandate to look at the whole design--plan, but also sort of general policies. Does that trigger?

KNAPP: Yeah, yeah. Well, I think I'd like to make a point first, that there has been a lot of talk about policy lending, structural adjustment lending, being such a big innovation in the Bank's history of operations. And indeed in some senses it was. But long before policy-based lending developed and structural adjustment lending as such, long before that--and, in fact, more or less from the beginning--there was a very great concern about the quality of economic and financial administration in the country, and the Bank did the first and best economic studies of countries that had been done by any international agency, perhaps national agency, either. And these were done for a purpose. Now, the buzzword then was "creditworthiness."

Now, let's talk about pre-IDA, and let's talk about Bank. The buzzword was not "policy lending" but "creditworthiness." You didn't lend to countries for projects unless their general economic performance was such as to promise, give reasonable

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promise of repayment of these loans. The case of Brazil is most striking. At times when Brazil fell into serious economic disorder, we suspended lending in Brazil, even though there were projects which financially and even economically looked very rewarding. And the fellow that was kind of the key figure on Brazil lending policy then was nobody on the project side but Harold Larsen, the Bank’s chief economist on Brazil. So there was the creditworthiness aspect.

Secondly, there was a sort of a sense of, aside from creditworthiness in a strict sense, a sense of economic performance— or maybe, put it a little differently, was this country dedicated to development and was it doing what it could to mobilize resources and to direct them into sensible development expenditures. So when we came to IDA, although there was not in that sense the creditworthiness test— after all, IDA credits are loans, but obviously on very extended and liberal terms— so it wasn’t so much then the creditworthiness but the country performance test. And, after all, if you were—with the very limited amount of IDA funds which we had at the time and you were distributing funds among countries whose demands were, even though we rationed them by keeping down the lid on per capita income and so on, but still the demand was always there in amounts far exceeding availabilities. And one of the serious tests applied was that there was the issue of economic performance.

I used to be a little impatient with people who, when they came along to the structural adjustment lending phase, who would say, "Oh, but you've got to make structural adjustment lendings to have leverage, to induce or to reward economic performance."

And I said, "Well, you know, we've been doing that for decades in terms of the volume of project lending, the overall volume."

And I think both on the Bank and IDA side, the overall volume of lending to a country was determined in important degree by their performance or their satisfaction, you might say, of policy tests.

LEWIS: Excuse me. That decision would be made in the, say, annual budgeting exercise or... 

KNAPP: Well, pre-McNamara, we didn't have exactly that kind of annual budgeting exercise. I mean, it wasn't as systematic as that. I'm going back kind of pre-McNamara on this. It was--but we did have, we did have--and this echoes the issue about CPPs--again, CPPs, as it recall it, were a McNamara invention.

LEWIS: '69, I recall.

KAPUR: Brazil [all speaking at once]

WEBB: Brazil, yeah.

KNAPP: ’69? Well, McNamara came in in ’68. But what we did have was we had our economic reports and in particular— it's particularly relevant, I think to this—is that in the reports to the Board we developed a section quite early on-- not at the very beginning, but quite early on--in which project loans were presented in relation to a
section on the economy and creditworthiness, "creditworthiness" being the buzzword. I don't hear that word anymore! It's just as if we didn't care! And then a section on--I think we called it something like the relations with the country, the relations with Brazil, and in this section we would sketch the Bank's history of lending in the country concerned, the experience with lending, whether loans have been administered successfully and whether the projects have been carried out effectively, and increasingly a kind of an analysis of the priorities for lending in the country, and a brief sketch--never with any figures--of our future lending in that country sort of, you know, the kinds of things that were in the pipeline, really.

We were very chary about announcing lending targets on a country basis lest the countries over-interpret that as a commitment. That was one thing that McNamara kind of broke through and which at the time distressed me somewhat, his getting too darned quantitative in these five-year programs and being quite willing to give countries assurances. You know, all these assurances, "Well, you know, if you perform well, and if the projects are available and so on, why we could consider X hundred million dollars a year over the next five, six years." And I was always conservative about making those kinds of semi-commitments.

LEWIS: Somebody like yourself, at least, would have a piece of paper that kind of did have some putative allocations for the . . .

KNAPP: Oh, sure. Oh, yes; oh, yes. Well, we--let me see. In that respect, what we had was kind of, as I recall it, sort of a two year--you see, we needed this. The reason we needed it on the Bank side is that we were always being pressed by the finance, the treasurer's office as how much borrowing are we going to need to do. And this idea of setting forth future lending programs was not so much a matter of lending mechanism as a matter of having to do something to satisfy the boys who were saying, "How much money are we going to need?" because they felt that they needed to do their advance planning, especially as it came to the stage of expanding geographically the market for World Bank bonds. You know, in the first years it was exclusively the U.S. market, not necessarily just U.S. buyers, but it was dollar bonds and mostly U.S. buyers. So the kind of forward planning which was pretty elementary was dictated more by financial needs than by kind of lending technical strategy.

There was no necessary concept at that time that the Bank was going to be expanding its lending year by year at a great rate. At a great rate--I think if you’d asked anybody, sure, we were a growing business, but I don't feel that there was any pressure to, you know, expand lending by 20% or X% each year so that you had to go out seeking lending opportunities. Rather, it was that we tried to handle such business as came before us, and in those years such business as came before us was not, you know, qualified business, which meant eligible, well thought out projects. The volume was not so much that it greatly strained our resources even when we were lending at the level of, what, a billion dollars a year. Well, of course, and again that was a lending restricted by rather severe limitations of creditworthiness.

You see, bear in mind this: you know, the whole arithmetic of Bank lending is just not very well understood by most people. The real lending is disbursements and

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repayments, net disbursements. I mean, all the figures you see about loans made, these are commitments. And when you're talking about projects, loan disburse projects, which ran out over six, seven, even ten years--once you got a portfolio going and repayments coming in, then a lot of the lending was simply rolling over repayments and didn't raise in that sense new issues of creditworthiness. And so net new lending, gross new lending commitments, came to expand rather easily, but it was not so easy to crank up the level of net disbursements.

KAPUR: McNamara targeted commitments much more.

KNAPP: Yes, that's right.

KAPUR: But [both speaking at once]

KNAPP: But, you see, McNamara was a very--what? I was going to say "publicity-minded." I don't--but externally, you know, he wanted the Bank to look like it was expanding its activities at a great rate. And, you know, that was part of the whole game of building up the reputation and the power of the Bank, both in developing countries and in the donor countries. Yeah, I think he--although I know at times he, too, when he caught up with reality and realized that the actual impact we were having on net disbursements, it would dismay him. He would say, "My God! What's happening here? We've got to accelerate disbursements!" You can't accelerate disbursements very much on project lending.

And do bear that in mind, that the shift to policy-based lending was driven very much by the desire to accelerate disbursements, first of all by the developing countries. They came to realize that all these figures on new commitments didn't mean that much. The meat was to get increases in net disbursements. And so they jumped at the chance to get a quick-disbursing loan. And, I think that had something to do with probably McNamara's kind of endorsement and even very active endorsement of increased non-project [inaudible] See, this increased disbursement is a sort of a dimension totally different from the question of whether you use loans to promote good policies. It's just a sheer, quick disbursement.

LEWIS: But the two came together, didn't they, in the late '70s? You had the second oil shock that increased the demand for quick disbursing money.

KNAPP: Yes, that's right. That's right.

LEWIS: And at the same time you had this interest in some people from the Bank, probably yourself, McNamara certainly, and Ernie and so on, in doing more policy advising. And so you sort of married the two together in this new . . .

WEBB: Could I explore this a little more about policies, because your point, as I understand it, is that there wasn't that much of a difference in substance between the Bank's concern and effort with regard to prudent policies. And that was--the period of the structural adjustment lending, there wasn't that much of a change in the substance of the . . .

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KNAPP: Yes, it was a change, I mean, a real change of emphasis, but still not that much of a change, not a kind of a sea change.

WEBB: But what I wonder, because the form did change . . .

KNAPP: In fact, the change in the rate of disbursement was probably more significant in a way than the change in the rationale of the loans, in practical application.

WEBB: There was quite a difference, though, in the form or the style, the protocol, with these new kinds of agreements . . .

KNAPP: Well, there had to be when you were going to the Board. See, let me make this point: I think this would be a valid point, that—what I was going to say, let's just put it on the table as a hypothesis, that the negotiation on policy with countries to--pre-pre-structural adjustment loans--to improve their performance and to improve their creditworthiness were not a matter that was of much concern to the Board. The Board was concerned about creditworthiness, obviously, but the economic policy discussions that were conducted between the Bank and the borrowing country, IDA and the borrowing country, for that matter, trying to improve country economic performance, these discussions all took place and were reported in very brief summary in the president's report to the Board on a big project loan, economic section, talk about relations with the country and so on.

But after you got, when you got structural adjustment loans, when the very purpose of lending or the nominal or declared overt purpose of lending was to improve economic policies, then you had to present to the Board a very much more elaborate and detailed, you know, list of the conditions of the loan. It listed a lot of things to be done--I mean, leverage, representation--so that it all became much more explicit, economic policy issues became much more explicit in the president's reports and in the Board consideration, whereas in the case of project loans, most of the Board discussion was in terms of the project itself and project conditions. Creditworthiness was either accepted or not accepted, but you didn't have that much debate about it. And certainly there was not that much debate about the dialogue between the Bank, IDA, and the countries. But with structural adjustment loans this became the meat of the matter, and Board discussions--there being no project, Board discussion focused on the policy conditions.

KAPUR: I was wondering if you see that as a way in which, almost ironically, has allowed the Board--the introduction of SALs--has allowed the Board to get more power between management and the Board, has shifted towards the Board, because it opened the mechanism for the Board to get involved in policy issues.

KNAPP: Yeah. Maybe. And look at it this way: the Board members were rarely if ever people of great competence in projects--you know, build a railway or a power dam. They were generally economic, financial people, and when you gave them a structural adjustment loan, it was something to get their teeth into. So that's not completely--it certainly led to a more active engagement of the Board with its loan conditions and probably had something to do with a shifting of power.

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WEBB: How do you see this change in format for the adjustment, for the policy discussion pressure, the change after the introduction of structural adjustment lending, helping? Did you see that as something that increased the Bank's real effective influence? Or did it have the opposite effects, perhaps? Or did this vary a great deal and it’s hard to generalize?

KNAPP: You mean in the shift from project to structural adjustment lending?

WEBB: No, in the change in the way that the policy influence was handled. Before it was more of a dialogue, as I understand it, and it wasn’t [both speaking at once] black and white or . . .

KNAPP: I think the Bank influence on the policies in the developing countries did, was augmented by the policy-based lending approach. And although I have gone on at some length to say that the policy-based lending--the lending policies, the lending criteria of the Bank--always had a large element of what are the economic policies of the country and are they satisfactory and do they, first of all, do they provide a basis for creditworthiness? Secondly, do they indicate that resources, that this is a country dedicated to development and going to use its own resources and resources provided by Bank/IDA productively and constructively?

WEBB: Can you imagine how structural adjustment loans would have worked in the ‘60s, at least before the debt crisis, when other monies were much more easily available? Is the power that structural adjustment lending has today or had in the ‘80s very much a function of the changed circumstances or the instrument itself?

KNAPP: Well, I'm just thinking. No, I suppose—see, the non-project lending that we did do, like these Indian general import loans and so on, were not--there was still, of course, the element, as I say, of all of the loans, they were policy-based in the sense that we were seeking to achieve through dialogue improved economic policies and that the volume of our lending to the country and the volume of its allocations through IDA were partly determined by how satisfied you were that the country was functioning. But I suppose, yes, those policy issues could have been pursued more aggressively if we had had the instrument of policy-based lending.

LEWIS: I would argue that in the Indian case I think it was—you had 16 actions required of the government of India, and the loan was contingent on the doing of a deal between Woods and Asoka Mehta. I think it’s almost a head-to-head, early case structural adjustment loan. It didn’t have the name but otherwise . . .

KNAPP: But, you remind me about—I’ll ask you this question: weren’t those discussions more or less concluded and agreed before the thing ever went to the Board, and were there, were such conditions as you’ve described inscribed in the loan documents and considered by the Board?

LEWIS: No, no, I think not. They were considered very explicitly by the president of the Bank and by the consortium, the other members of the consortium. The Bank was, if anything, a junior partner in the whole business with the U.S. in that

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particular case; but the negotiation was conducted by the president of the Bank as chairman of the consortium. So I don't think that these Bank loans, non-project loans, were explicitly undertakings by the government of India

KNAPP: Okay.

KAPUR: So the Board was left out of it.

LEWIS: I think essentially. Of course, they would have read about it in the papers because the big thing was devaluation. It was all over the press, and there was a big hoo-hah. But it was—in terms of modalities it was, except for the Board—that's a good point—but except for the involvement of the Board it was the one very clear precursor of the structural adjustment loan.

KNAPP: Oh, I wanted to make a point about the Board's role in this. We tried, management tried, with great sympathy from some of the leading donor countries—the U.S. [inaudible] pushed on it—we tried to develop an annual review in the Board of country economic policies and programs and, you know, that you would devote more time to the major countries, less time to the other countries, but that you would have a significant time set aside once a year for a discussion, not of the loan but of a country's economic policies and so forth. And we never got to that. We never got to that! The reason was that the developing countries adamantly fought it. They just did not want to have such country discussions in the Board. It was bad enough to have them with the management, but to have—is this a new point to you?

LEWIS: Yes, it is to me. It’s fascinating.

KNAPP: Oh, well.

LEWIS: You have that?

KAPUR: [all speaking at once] in the McNamara years. You're talking of maybe early ‘70s?

KNAPP: Probably.

KAPUR: Because, you know, the revised, the Board procedures have just recently been changed drastically.

KNAPP: I hope to get up to date on that sometime, but we won't take the time now.

KAPUR: Yes, and it's precisely that, that now the—this is exactly what you are saying. They are not going to be discussing projects almost at all.

KNAPP: You see these CPPs were at the stage now that I'm—we had developed those, but they were secret, top secret. And the idea was . . .

LEWIS: That's precisely the point I make about those things that I read. Particularly, I did a review for the Bank OED on Pakistan a few years ago, and I
remember very well that you and Bob McNamara and I don't know whether the vice president was there for South Asia, dumped on [Zulfikar Ali] Bhutto--just put a ceiling on him. It was basically—it was pretty--I thought it was because of what he had done in eastern Pakistan, but it was overtly because of irresponsible macro policies, too inflationary and so on. I thought it was a bold--I didn't feel like arguing with you about it, but it was completely opaque because nobody knew what the—this--I was able to have access to your secret minutes--but this all came up from the region with recommendations for various kinds of social policy innovations, and these were things that were in tune with the McNamara sort of style, you know, but there was this macro ceiling laid on by you fellows, and that was it!

KNAPP: Well, but the point I was making as not only were the results of the reviews were confidential, but the CPPs themselves were regarded as very--and so the idea that you should open up to the Board and have a discussion on country policies meant presenting to the Board, maybe not a CPP in the same frank and uninhibited style as we would write them normally, but something on that order would be exposed to discussion before the Board. We always [both speaking at once] got beaten back by that. As I recall it, the developing countries were almost unanimous in opposing this.

KAPUR: But would the CPP be shared with the country itself?

KNAPP: Oh, no. [all speaking at once]

KAPUR: No way. It would be completely internal.

KNAPP: That’s right, completely internal.

LEWIS: See, as a historian my criticism of you was that you were being too opaque in your--nontransparent--and here it turns out you're telling me that you tried to be thoroughly transparent and put the whole thing to the Board.

KNAPP: No, I'm not quite saying that!

LEWIS: No?

KNAPP: No, I'm not quite saying that we were proposing to put in to the Board a paper with the same degree of frankness and openness. It would have had to be more diplomatic.

LEWIS: Yes, yes. All right.

KNAPP: But substance, yes, to open up the substance. No, these developing countries said that they wanted to preserve these country policy discussions as a matter between them and the management, the Bank staff, and they didn't want to be hailed before a body of their peers to defend themselves.

LEWIS: How did they differentiate that from accepting consortiums and consultative groups, one by one? There they're dealing with pretty much the same Part I cast.

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KNAPP: Yes, that's right, that’s right. Well, you know, one answer to that would be that they thought that they—and I think rightly—that the mere establishment of a consultative group gave them a tactical advantage, a comparative advantage with other countries. It was a price they were prepared to pay for getting that degree of priority attention.

KAPUR: How effective was the CPP as an instrument for you?

KNAPP: Oh, I think very effective. I mean, really after we developed things for over two or three years, you sort of thought, how could you have worked effectively without such an instrument?

KAPUR: In some of the CPPs, up front there is a discussion on the politics of the country, quite explicit, and that, you know, maybe this regime is not . . .

KNAPP: That's obviously the kind of thing you couldn't do in a Board document. You just couldn't do it.

KAPUR: Right! And it sort of, you know, it would appear with hindsight that it was quite well judged, politics in the country, that either this regime is serious or not or some such judgment. And then you have sort of lending things sort of laid out in the main body of the document; it seems to completely ignore that, sort of says, how--let's lend more money. At times there seems to be sort of disjuncture between the sort of political analysis and the economic. Is that a fair--is that your sense?

KNAPP: Well, I don’t know. It would be easier to answer that question if we had a concrete example . .

KAPUR: Right.

KNAPP: . . . but a couple of comments occur to me. There could well be a disjuncture between political and social assessments of a country and lending policies in the sense that—well, let's take a case that may illustrate the point as well as anything which I was personally involved in, and that was Greece. When the Greek junta took over power in the late ‘60s and there was suppression of human rights and of the press, and I have no doubt if you read the CCP of that time you would find rather adverse comments about the government, and not only its abuse of political and social rights, but even its management capacities as well. But that raises, then, this whole question, human rights question, in which we had sometimes rather sharp differences with the U.S. government, [Jimmy] Carter regime, particularly, who was urging the Bank to suspend lending to countries, to punish countries. You can't punish them! I mean, that’s sort of—yeah, I think probably they would have used the word to “punish” these countries for its undesirable practices.

Well, we--our line, the management's line and my line, was that we shouldn't penalize a country for having a bad government unless it raised such basic questions about economic mismanagement or credit that you just couldn't lend because we always regarded these governments as transitory. And we went ahead lending money to

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Greece after the junta. I don't remember that the U.S. at that time voted against the loans, but they certainly were not enthusiastic. And we got a lot of very heavy criticism from countries like the Scandinavian countries, the Netherlands, probably the British--and I received visits, several visits, from Greek liberal leaders in the United States and elsewhere who would come and protest about the loan. I never actually got Melina Mercouri in. You remember her? Too bad I never got her in! But she was very vocal along the same line. And I was trying to say, "Well, but who's going to suffer if we stop this lending?" And the loans, fortunately, the loans we had at the time under consideration, were one for agricultural development and one for technical education. You know, who's going to suffer? Well, the people are going to suffer. This government isn't going to be there forever. And after a period of, what, four or five years they lasted, I had some of these people come back to me and say, "Oh, gosh, yes, yes, we see that you can't turn them away. We're glad to have had these new [inaudible] institutes. We're glad we didn't have to wait for five years to get them."

[End Tape 1, Side A]
[Begin Tape 1, Side B]

KNAPP: What we did very much resent was if, in such circumstances--and there were some manifestations of it in this Greek case--if the government, having got a World Bank loan, would sort of parade this as a manifestation of the Bank's recognition or appreciation of the job they were doing and use it as a sort of a "Good Housekeeping Seal of Approval," you know, on the government.

KAPUR: Maximizing them.

KNAPP: And in the Greek case on one occasion I called the Greek ambassador in to tell him just that, that we were trying to do our best for Greece and for the Greek people, but that he was damaging his case very seriously if the government exploited these loans as a—you know, the question is just how you put this, but I think he got the message very clearly, and it seemed to ease up a little after that.

KAPUR: Right.

LEWIS: Go back just a moment to that question about projects. Do you agree with--I think I find agreement between Baum and Stanley Please on this dominance of the project department back in the '50s and '60s?

KNAPP: Oh, well. I could give you a half minute, five minutes, a half hour on that. I'll tell you, you see, the fact is that I arbitrated these. I was the only one that sat above the projects department and the area departments, and we would have these Loan Committee meetings where the final approval would be given for the negotiation of loans and papers would be presented about the project, the conditions and so on. And the projects people, the country lending people—as you can understand—would be on the activist side. I mean, they would be kind of straining at the leash to get ahead and do some lending. That was their metier. And the projects people would be a planned and deliberate checks and balances. The project people, insofar as project loans—and that constituted the lending in those years—would be

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advancing their ideas of whether this project was suitable, whether it enjoyed priority in the country's development program, and in particular whether the conditions which the Bank was going to, was asked to negotiate were adequate to assure the success of the project. It was on loan conditions—I've mentioned priorities, but usually that priority was kind of resolved a long time before—but the issues would be coming up about conditions. And about, if there is a loan to a power company, what should be the conditions about power rates and finances, percentage of new investment to be derived from earnings, et cetera. Or it would be a question of the institution that was set up. Did you need a new institution? Was the existing institution competent? Could it be amended or could it be made adequate by contractors, consulting engineers? Et cetera, et cetera.

And in my capacity as arbitrating between these [inaudible] I suppose--I don't go nearly so far as to say that--Stanley Please said the projects people were really in the driver's seat, but I suppose I would generally be loathe to override a project department objection if I felt that it was soundly based. And, of course, you're always in an area of probabilities, you know. Reasonable people can differ, and so on. I think that it's probably true to say that, other things being equal, I would kind of come down on the side of saying, "Well, let's not proceed with this project unless we can improve the conditions." It was the conditions. And then what that meant was generally speaking that the project wouldn't die there. The area department would go back to renegotiate and stiffen up on the terms. And rarely, rarely were projects at that stage rejected. It was more a matter of renegotiating the terms. And I can remember only a very few cases where I would just flatly overrule the projects department.

I remember a case in particular where a great and good friend of mine was the head of the education department, and it had to do with some African country.

WEBB: [Duncan S.] Ballantine?

KNAPP: Ballantine. And Ballantine just came up flatly opposed to this loan on the grounds that the country did not have a competent organization to carry out the project. And we debated this back and forth, and the area department view was that, well, it sure wasn't as competent as they'd like to see it, but this was a foot in the door for the Bank. It was a small loan to a small country. It was a foot in the door to establish that if we went ahead with this small initial credit that it would give us entre into the country to accomplish much more in the way of reform of their educational system. But Duncan Ballantine didn't quite walk out of the room but he really got very upset with McNamara and I just flatly overruled him. That would be exceptional.

LEWIS: Did cases arise where there was a move to load conditions onto the project loan that went beyond the scope of the project, that is, a macro policy kind of condition?

KAPUR: Sector loan were, I think--were sector conditionalities put in projects?
KNAPP: Oh, yes. There were conditions. And probably it would be a sector loan more than a specific project loan that might attract [both speaking at once] might have such a proposal.

LEWIS: But that sort of thing did operate in the Latin American case, didn't it, during the ‘60s, where they did a sort of a set of project loans that were somehow interrelated?

KNAPP: You mean in the same sector or different sectors?

LEWIS: I'm not sure. It's what Gerry Alter told us when we had a long talk with him. I don't know that . . .

KAPUR: I've also heard that--I'm not sure when it started, the Bank started to finance time slicing, time slicing investments. When was that? And was that viewed as an instrument for greater sectoral conditionality?

KNAPP: Well, you know, as I recall it--and I come back to something I said earlier--my impression is that that slice of a program was instituted more to get quicker disbursements than anything else. We had a Mexican power program. We had done several individual projects, and they were long, long in execution, six, seven years, as I said, took even longer to disburse. And two things happened. One was, and the one that comes sort of quick to my mind is--maybe only because you discussed it so recently--is this issue of disbursements. The country would say, "Well, my God. Why can't you take a time slice, which would be a two or three year slice of our whole investment program, and disburse against that?" And that meant they got the proceeds of the loan in two or three years rather than seven or eight.

But I think there was, beyond that, the point that we were again moving in this general pattern that I always see. We were moving from a narrow project approach to a broader sector approach and then to a broad economic approach. And it did lend itself, this slice of projects, to a better overall sector relationship with a country and ability to establish conditions regarding the sector if only because we would be attaching our disbursements to a wide variety of things and not just to one thing. If in Mexico, for example, you were financing one hydroelectric project, it would be quite possible and we did attach conditions relating to the finances of the overall Mexican power system and to, let's say, the employment of consulting engineers for advanced planning and that kind of thing. But such conditions became more acceptable to the Mexicans and more appropriate if you had a broad sectoral approach.

LEWIS: Did time slicing apply only to sets of projects, or could you have a single project that would be time sliced?

KNAPP: No, usually I'm thinking of time slicing as meaning you would have a dozen projects . . .

LEWIS: Yeah, in the bilateral case there is the motivation for that kind of thing utilized project by project simply because of supply constraints, that is, you don't have
the resources to pay for the whole damned thing in one go so you have a chance to pay for the first third . . .

KNAPP: No, but I'd make a different point. The trouble with time slicing in individual projects—and there's also a certain problem about this in time slicing a sector—time slicing an individual project meant that the project itself would not be fully financed.

LEWIS: Sure. That's right. It's risky.

KNAPP: And you'd have to, you know, you'd have to proceed then to a second round of financing in which you'd be kind of pre-committed, you could hardly pull out.

LEWIS: You could wind up with [both speaking at once]

KNAPP: On individual projects, our theory was generally--certainly the general theory was that you ought to have 100% of the financing in place and some [both speaking at once] somebody standing by to cover cost overruns.

KAPUR: When did this begin? In the '60s? Time slicing?

KNAPP: I think it began in Mexico, and it would have been in the '60s, yes. Then we got into time slicing on things like highway programs.

KAPUR: Right, because that lends itself more to it.

LEWIS: I'd like to deal with the '60s, follow up on this economics business, but you've got into, really, questions of implementation. You were the boss of operations for a long time, and so I'd like to hear you pursue that whole question of disbursement and implementation a little bit. You know that, I'm sure, that some of the pundits, particularly criticizing the McNamara period, have said there was such an emphasis on starts, on getting, making the money move, that all of the brownie points tend to get allocated to the performance in that dimension, and the Bank kind of lost interest to what was happening on the ground once these commitments had been made and the money started to flow. And that certainly must have concerned you and . . .

KNAPP: I honestly don't think that's a reasonable allegation.

LEWIS: You don't?

KNAPP: I mean there are other--I would put differently some points about brownie points given to people for making loans. With brownie points, I think we went too far. There was a tendency to go too far to give brownie points to the loan officers who made loans as compared to those that turned down loans. That's another thing. But in terms of the follow-up, gosh, we had a very systematic, intensive program for what we called supervision missions, sometimes limited by staff considerations. And there you might say, yes, the trouble was staff were assigned to making new loans rather than supervising the old ones, but that was a dichotomy that we were always
very conscious of and I think very insistent upon seeing that loan supervision, and that--loan supervision with one of its most specific end purposes being to accelerate disbursements, you know, to find out where bottlenecks were occurring and to try to (in consultation with the agency executing the project) to break through those bottlenecks and accelerate the construction, development of the project, and thereby to accelerate disbursements.

And one specific reason for that was that it was awfully--to the outside world, first of all to the Board and secondly to our member governments and thirdly to the outside world, there was always a great deal of criticism of these undisbursed commitments. You know, people would see all this money piled up in the Bank, immobilized and not being put to constructive use except to invest in the short-term capital market and produce some interest earnings for the Bank. So we were under a great deal of pressure always from such sources, starting with the Board, criticizing the management for not, for the poor record (as it was described) in disbursements. And under that pressure--I don't say only under that pressure; I think without that pressure we'd have had a program for supervision missions and acceleration of disbursements, but with that pressure we certainly did. And I just don't think it's reasonable to conclude that we neglected the follow-up and the utilization of loans and the acceleration of disbursements as against hustling out and making new loan commitments.

And indeed, indeed, there were many occasions where we refused to make the new loan commitments until disbursements had improved on loan commitments. I think that almost—well, that becomes a clear point, illustrating what we had in mind was the priority. We said, "We can't go back to the Board and recommend a new loan when you haven't even taken these, these and these steps to utilize what you've got." There would be conditions of disbursement which, even before the initial disbursements were made, a country had to satisfy, like, for example, passing a law to establish an institution to carry out the project. And those--that's a precondition for any disbursement, and of course we'd agitate about the failure to satisfy such conditions.

But then, as you got a little later down the line, where sometimes disbursements would be delayed because the country concerned, in many cases we would make disbursements proportionate in a country, especially for local currency expenditures. We'd say, "Well, we'll cover 60% of these expenditures; you cover 40%." And disbursements would become delayed because the country concerned couldn't find the 40%. So then we would be pressing them to find the money and saying, "Look, you told us that this was high priority in your scheme of things, and you're not living up to your undertakings to us."

No, I don't accept that one.

LEWIS: Okay. Very good. We got a straight answer.

WEBB: But you seem to do some of the analyses, studies that are coming out now that are worrying the Bank a lot, that are showing quite large falls in what the Bank

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calls satisfactory performance, project performance, or what the Bank calls success of projects . . .

KNAPP: Well, now, wait a minute, now. That's a little bit different. There's one question: whether do you carry out a project. Now, the other question is whether, having carried it out, it has the results you’d hoped for. But anyway, I'm just making a little distinction there.

KAPUR: There’s sort of a link in this case because they had two task forces. And one was on supervision, and the other one was on quality planning, what seems to be for performance of the Bank portfolio, and there seems to be a link between the two.

WEBB: But this is the ‘80s?

KAPUR: Right.

WEBB: I understood we were really talking about ’67.

KNAPP: I'm talking up until '78 when I laid down my burdens.

WEBB: Right. And you didn't see this--it didn’t show up then. But I wonder what is it then that went on that is causing this [inaudible].

KNAPP: Tell me about these working parties you mention. Are those current working parties that are--is this part of the evaluation mechanism?

KAPUR: No, it’s just finished, you know. One was Mr. [Willi W.A.] Wapenhans, and it’s just been given, his report to the president, about a month back. It was called the Staff Report on Portfolio Management, which was formed as a result of the perception of deteriorating . . .

KNAPP: Deteriorating follow-up or supervision?

KAPUR: Or the fact that OED is finding that over the past four years the [both speaking at once] . .

LEWIS: Rates of return [both speaking at once] . .

KAPUR: . . the cohort of projects it’s evaluating [both speaking at once]

LEWIS: . . have been sinking. And there's a downtrend through time for each individual project. The first appraisal is higher than the end, the completion appraisal, which is higher than five years out. That sort of –it’s . . .

KAPUR: I think what concerned them was the trend is continually going down. And that's what . . .

KNAPP: And what was the other working group?

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KAPUR: The other was the one on--an OED report on Bank supervision which looked at . . .

KNAPP: So the general, across the board?

KAPUR: Right. And what seems to be the shape or the conjecture that--or that one of the reasons why portfolio is declining is that supervision in general had been less . . .

KNAPP: Does it show a declining rate of supervision, man-hours devoted to supervision?

KAPUR: Yes, they have all the numbers on--and management defended itself by saying, “Well, the numbers don't really show that much of a decline in staff weeks per project,” which, of course--well, it depends because the projects are becoming more and more complex so that it's not clear how much it takes for a project.

LEWIS: You guys [all speaking at once]

KNAPP: I've got to go pretty soon.

LEWIS: As long as we're on OED, let me just ask you maybe why--as I remember that thing starting, to say that the impression—well, we have it from Chris [Christopher R.] Willoughby, who was involved early on, at the very beginning. And as we understood his story, it was that OED was established under McNamara's aegis and that McNamara really thought of it as kind of like a staff unit that a corporate president would have that would give him quick and penetrating intelligence about what was going on in the operations. And it would illuminate his managerial decisions, and it would be very closely held.

KNAPP: Gee. I don't recognize that.

LEWIS: You don't recognize it? That was a [all speaking at once]

KAPUR: At that time it was the OEU, the Operations and Evaluations Unit, when it came out with the Colombia report, the Colombia study. And then the Board in '72, especially the U.S. ED, insisted that this department would offer its report not only to management but also to the Board. In fact, if you see the Board document, the working document does not say "Board." Then you see a month later, July’s document, which adds “and also to the Board.” And . . .

KNAPP: Well, I don't remember so much that transitional arrangement or the initial arrangement, but certainly as the thing was set up it was set up by--I would say there was a lot of pressure from the Board to have such an ex post evaluation of projects and a lot of pressure that it should report to the Board independently, separately. It would really be an instrument of the Board for checking on the performance of management and . . .

LEWIS: Something like GAO [U.S. General Accounting Office].

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KNAPP: Yeah, yeah. And Bob did, while being all in favor of this evaluation exercise, did successfully combat the idea that this be a body reporting just to the Board. It was kind of fuzzed up. It was reporting to the president and the Board and the appointment to the position would be subject to a joint appointment by the president and Board.

LEWIS: And he can't revert back into the Bank.

KNAPP: Yeah, and that kind of thing to ensure independence. But, you see—I don't know. The words you use, quoting Willoughby, seem to me to say not that this group had been set up for an ex poste evaluation of projects, but that it had been set up as a kind of think tank or—I don't know--off on the chart somewhere, off here, an organization that would be evaluating the performance, the current performance of the Bank staff.

LEWIS: That's what I said. I may not be quoting . . .

KAPUR: No, I don't think he meant that. I think he meant that McNamara above all wanted it to report directly to him and that it not be on discrete projects like the Colombia study was but far more general, on the whole . . .

KNAPP: But Colombia was a study on the Colombia program or country.

KAPUR: That's right. Exactly.

KNAPP: Yes.

KAPUR: But he wanted it to be a very frank and candid instrument which would be held only by, only involve top management. That’s it.

KNAPP: Well, I misunderstood. I think, what you said because I interpreted what you said that it was to be an appraisal, say, on behalf of management or on behalf of the Board, of the current lending activities.

LEWIS: Yes, I said it that way. I misspoke.

KAPUR: But then he said that McNamara lost interest in OED . .

KNAPP: Oh, really?

KAPUR: . . once it began to report to the Board, once that arrangement . . .

KNAPP: I can't confirm that.

LEWIS: The thing he was emphasizing was--I have it wrong, I think, about the time focus, but he was very firm on the closeness, that McNamara sort of wanted a monopoly agent that would retrospectively evaluate what had been going on and that

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he lost interest when it was--the Colombia report was ill received by Colombia. Isn't that right? There was a great deal of sensitivity about it, I think.

**KNAPP:** Yes. I don't remember. I think you're right. [all speaking at once]

**WEBB:** The ED objected strongly [inaudible] social policy

**LEWIS:** I remember saying to Ernie, "I understand you suppressed that." He took great offense at that. [Laughter]

**KNAPP:** Well, we never suppressed anything, you know. [Laughter] Well, now look. We'll resume tomorrow?

**LEWIS:** We'll resume, and I'll call these guys tomorrow night . . .

*[End Tape 1, Side B]*
*[End of Session 3]*
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[Begin Tape 1, Side A]

KNAPP: . . . at least one quarter of 1% if you were real. Of course, they were strongly negative for so long. Well, do you want further comments on that one? It is very interesting.

KAPUR: It is. I found a number of such things in your files, you know, from the correspondence between you and McNamara where he questions whether--and then I don't have the response, yours or it's not really complete. So it's not very clear. And then, if I look at the lending figures, they didn't really change so I wasn't sure if, how much these things bit, in a way.

KNAPP: Well, let me tell you, McNamara never meant that seriously. He really--there wasn't any likelihood at all of us stopping all lending to Brazil over this issue.

LEWIS: I think we ought to talk some about the ‘70s for a while, and there are any number of handles that you could grab a hold of about it. Once—the first time we interviewed you, I think, you said that--maybe I asked you how much difference McNamara made, and you said something to the effect that the sort of dynamics of the Bank and its relations with the world were such that while McNamara was important, he was not decisive, that there were sort of trends at work that would have made the Bank be and do a lot of what happened in the ‘70s whether he was there or not. I think you said something like that.

KNAPP: Yeah, I might have, not that he didn't accelerate those trends. Not that he didn't greatly accelerate those trends in, say, poverty orientation or agriculture, but I did say that I thought those trends were already inherent and would have developed at a less accelerated pace if he had not been the personality that took over. And what also one might distinguish between, so to speak, the qualitative aspect and the quantitative aspect. I mean, he certainly brought a tremendous impetus to the size of the Bank and its lending program and of its staff.

LEWIS: Is that the most important?

KNAPP: No, not necessarily, but the two played one to the other because Bob would always talk about having a critical mass of staff in any particular subject. And that meant that the more subjects you had, the more critical mass you had to have, and having enough port engineers to handle the Pacific coast, say, of South America.

LEWIS: How about the size of the program in dollar terms? That was driven up awfully fast.

KNAPP: Oh, yes. Oh, yes. Yeah, that's my point, that he, along with his qualitative expansion, he brought certainly a tremendous, you know, impetus in terms of the scale of lending by the Bank and a great drive to expand the replenishments of IDA.
But on the Bank side he was more daring, so to speak, financially in terms of saying, "God, we've got to expand this Bank and expand its sales of bonds and its—you know, reduce the coverage of the capital related to the bond issues."

He—I mean, in the last year or two with George Woods—I forget whether it was the last year or the year before the last—to my dismay George put a lid on me in terms of expansion of the Bank’s lending, and it was kind of on financial grounds. "Well, we can't borrow that much money." And it was at the level of something like 900 million, a billion dollars a year. And if you look at the last two years of the Woods era, I think you'll find the Bank lending in dollar terms pretty much leveled out and he said, you know, “You can’t expand beyond that.”

McNamara came in with such big ideas that I was very startled, and, in fact, in his initial speech to the annual meeting he made a five-year forecast of the Bank's lending on a very steep rising curve, and I strongly questioned it. I mean, I questioned the idea of making a five-year projection in the first place, let alone at that very rapidly ascending level. And I think there is somewhere in my notes--I don't know if you remember this--I think I made such a representation to him and got a note back saying, "Well, my speech is already in‖ or “It’s set. I can't change it."

And actually, as it worked out, as I recall it, we pretty much hit those figures. I think maybe it was slow at first and then a curve. And at the time I think I thought, and I think other people, in the treasurer's office and things, thought that Bob was really pushing our financial limits very strongly. Well, of course, we did have to get additional capital increases to sustain that level of increase.

But on the IDA side, certainly, Bob was a real crusader. I mean, you know, people like Woods--there wasn't much to compare him with because the thing was just launched during Black's day, and certainly as far as Woods was concerned he had nothing like the kind of vision and ardent commitment that McNamara showed in terms of just the size of the IDA operations.

LEWIS: That’s--the replenishment exercises that worked, they were—I mean, you speak about McNamara. He was the driving personality, I guess, in those, although he assigned vice presidents quite a fairly considerable role, didn't he?

KNAPP: Oh, yes. Oh, yes. I chaired myself a couple of them. [both speaking at once] I lifted some, and of course then it came to Peter Cargill.

LEWIS: He did the early ones?

KNAPP: Yes. I did the one where we were--which was the toughest one, really--where the U.S. insisted on putting in balance of payments safeguards.

KAPUR: This was IDA II?

KNAPP: You remember that one? IDA II or III.
KAPUR: That was the time of the--Woods had lost, I mean, the one that he had so much trouble with?

KNAPP: It was under Woods, that's right.

LEWIS: That would have been when the--yes, I would have left the Council by then, but that was the great shocker in the U.S. administration, the gold budget and all that, when the balance of payments problems scared the hell of them.

KNAPP: That's right. You want me to talk about that a minute . .

LEWIS: Yes, please.

KNAPP: . . because this was really, I think, the most serious confrontation I think IDA has ever had. The U.S. was in the middle of this very serious balance of payments pressure, and we were seeking an expansion of IDA resources, naturally. And they said, well, they doubted very much if they could even keep the present level but if there was to be an expansion, that it had to be on condition that the U.S. would be called upon last—you know, instead of drawing pro rata on all the contributors to cover your disbursements, that they should be called on last, which would defer calls on them for several years. Well, that was kind of an opening position. But then it got to the point where they said, “Well . .

KAPUR: When would that have been? ’67, ’68?

KNAPP: ’67, I would think. But finally we got them into the position of saying, ”Well, yeah, we'll accept your drawing on the U.S. funds to cover U.S. exports, to cover expenditures on U.S. exports of goods and services,” which meant that, in effect, there would be a deceleration in the early years of the calls on the U.S. matched by an acceleration on the other partners. The real problem was to get the other partners to accept that acceleration. Then finally, after all the other money had been drawn, you would come back to the U.S. contribution and call on the U.S. contributions for the tail end of the disbursement pattern.

Well, our first question was would the other countries accept this. Our second question, closely related, was would other countries seek the same privilege. You couldn't have everybody seeking the same privilege! But would any other individual countries, you see? Well, the British, there was some talk about it, and Irving Friedman came up with a proposal about that there should be, you should offer this facility to other countries and so on. And I just really adamantly insisted that this was a U.S. problem; we're not going to see this thing multiply. And, indeed, no other country in the end pursued it, and they grudgingly accepted the U.S. proposal. There was even some talk about the U.S. should pay interest on the amounts that had been advanced by other countries.

But I, as I look back upon it--of course, we've had problems always about the size of the replenishment. Sometimes we've succeeded and something we failed in getting what we regarded as an appropriate or adequate increase. But in terms of the other issues arising, I think this was the only time where we--this was the most critical issue
that we had, and we did manage to surmount it thanks to the willingness of the other countries to accept that acceleration.

LEWIS: The U.S. was putting a lot of pressure on the other countries, that sort of burden-sharing kind of pressure at that time, also in food aid. You remember that Gene [Eugene V.] Rostow was some--charging around the world trying to get inputs to share in the food aid burden. We were kind of used to that kind of funding in the [Lyndon B.] Johnson administration.

You mentioned Friedman, and that reminds me that one thing--I mentioned yesterday we were going to ask you about it--was what happened to economics in the ’60s transition to the ’70s, probably from Woods to McNamara, I suppose. We have from some of our looking at the files, first of all we know that Friedman was a fairly kind of controversial character within the Bank. He had his following, but he also was not—many people weren’t very taken with him. But aside from personality, there are people who say that the Bank was very much focused on macroeconomic policy issues in the ’60s and that there was less of that in the ’70s under Hollis Chenery, that Hollis was, in terms of his professional interests, was a plan modeler. And he got very much pulled into—by then McNamara, I take it—into looking at equity issues, income distribution, redistribution and growth and all that, the [inaudible] Galwalia [ph] business and so on. But there wasn’t really as much focus, so we’ve been told by some, on fiscal and monetary policy in developing countries as there may have been back in the ’60s and that somehow that kind of charge had been passed to the Fund, that there was some sort of delegation almost from the Bank to the Fund. Now, is that, accord with your memory?

KNAPP: Well, you know, that’s very interesting. That really is very interesting because I wouldn’t have come up with that thesis myself, but when you put it, I recognize it. Yeah. And, of course, Irving came out of the Fund, and he had a kind of Fund orientation. And his expertise, if you like, or his interest lay perhaps more in issues of national economic and financial management, macroeconomic problems of developing countries, rather than the rationalia of development and growth and poverty. I don’t think of Irving as, for example, on the poverty issue of having any particular interest or summa. So, as I say, to me that’s very interesting because I think there’s a lot to it.

KAPUR: Andy [Andrew M.] Kamarck said a little bit on it.

KNAPP: Did Andy give you this slant?

KAPUR: Well, yes, so far [all speaking at once] and I guess he was . . .

LEWIS: Number two to Friedman, wasn’t he?

KNAPP: Well, a very senior position, although [inaudible]. Andy is a very good source, very good source. The only thing I kind of stop at a little bit is saying, "Leave it to the Fund."

LEWIS: Yeah, well, that’s a little strong.
KNAPP: I'm not so sure about that. I mean, aside from Friedman--we've been talking about Friedman and Chenery and their orientation, and of course, that would have a certain effect on staff, too--but there were still an awful lot of people in the Bank, the economists in the economic department and in, especially in the regions, who were very much interested in fiscal and monetary . . .

LEWIS: There's no set of people that migrated to the Fund [both speaking at once] fiscal policy [both speaking at once]

KNAPP: No, not that I remember. That migrated to the Fund?

LEWIS: Yeah.

KNAPP: No, no. I think the trend was always kind of the other way, people like Bob [Barend A.] DeVries and several that came over from the Fund. So I wouldn't--on that last phrase I would be very hesitant [both speaking at once]

KAPUR: [inaudible] people like Ved Gandhi was in the Bank, in fiscal affairs, and he and a couple of others left the Bank for the Fund.

KNAPP: To go to the Fund. What was his name?


KNAPP: I obviously don't remember.

WEBB: [inaudible] He was at Harvard.

KNAPP: Now, of course, when we got to this structural adjustment lending type of thing, then obviously the Bank was taking a very big interest in macroeconomic management.

LEWIS: Oh, yes, yeah.

KNAPP: But I would say during the ‘70s that . . .

LEWIS: Well, one of the reasons this comes up in our exercise is that part of my glib thesis about what happened in 1979-80 has been that you had this demand we were talking about yesterday for quick flowing resources. The second oil shock and all that suddenly created a demand for more transfers from multilaterals than the Fund could provide and for a longer-term period than the Fund. Because of this, the program lending, there was a new market, kind of. But the other thing I’ve argued was that the Bank had been building up a compounding sort of frustration--I think of this particularly in the case of Ernie Stern—but that in general they had been building an economic policy analysis capacity during the ‘70s. They thought they were pretty hot, in a sense, and it didn't have very good outlet vehicles because project loans weren't as good vehicles for that kind of, those messages, as the program loans. So as the two things came together, and then you had the--now, Devesh, in going through

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the files and so on, keeps coming up with stuff that sort of questions how comprehensive the economic expertise in the '70s was really. Particularly, if you're talking about adjustment, structural adjustment, which is macroeconomics, it was not all that—there was Bela Balassa, but then beyond that there wasn't a hell of a lot. You had very good people on industrial economics and infrastructure. You had some good agriculture people, and you had Hollis and his researchers, but . . .

KAPUR: This is especially from Hollis's chron files, which we can--his correspondence with McNamara. There is a lot of work that--I guess there used to be some joint annual papers sent by him and Warren Baum to McNamara which deal with economic and sector work. And now one could say that it might be the normal, you know, thing, of a bureaucratic thing that "Look, we need more people," or "I need more people," you know, which is always there in any sort of bureaucratic thing because you have a gap. That--maybe that explains most of it, but at least he seemed to say in '76, '77, '78, that there are major gaps in our economic and sector work. You know, "We really do not have the sort of expertise" and so on and so forth. And then suddenly in '79-'80 the Bank, you know, seems to think it has all the expertise in all these things. So that, the dichotomy, [inaudible] a sort of major change in its own perception of expertise.

KNAPP: But aren't you saying something a little different from what John was saying? As I understood from what John was saying was that kind of macroeconomic country analysis was, declined in the '70s . .

LEWIS: Yes, that's right.

KNAPP: . . maybe then to be revived when you got structural adjustment lending.

LEWIS: Yeah, that's right.

KNAPP: But you know--let me just call your attention to this, that the reports that you're talking about probably were reports basically on the central economic staff and the central project staff, I mean Baum and Chenery. And they would have been doing the kind of sector, industrial, and agricultural, of course, and international trade and comparative advantage and that sort of thing, but at the country level--see, the economists were distributed between the central economics staff--and at the country level I think you would have found no decline and indeed very continuing strong interest in country macroeconomic performance. And I think basically some very good work was done there.

LEWIS: My sense, the only encounter I had directly was with the people in the South Asia, particularly the India shop. And there I think you're right, that there would have been a very steady level of considerable competence, people like [William M.] Gilmartin and, you know, the kind of good journeyman analysts that would—I don’t know whether this was true as much in Latin America or not.

KNAPP: A fellow like Guy Pfeffermann?

LEWIS: Yes.
WEBB: I think it's the same sort of people who've been there. What they were really pushing in [inaudible] The Bank was not, I guess—I wonder how you see this-but my sense was the Bank just didn’t have the leverage in some of these countries and maybe also not the degree of worry to really sit on trade policies and demand management and borrowing costs, all of that seems to come out in the wash in the ‘80s.

KAPUR: The emphasis on borrowing [both speaking at once]

WEBB: I don’t think it was the people who didn’t have the—it was really the Bank’s broader signal. That’s my interpretation. I don’t know if you would agree with that.

KAPUR: I’ve been on country borrowing, the commercial banks were borrowing in Latin America in the, I guess, mid-‘70s onwards which really was a [inaudible] The files don’t seem to indicate that much. McNamara would at times speak about the debt problem, in fact, you know, in ‘76, ‘77, ‘78. But the country files don’t seem to really—even when we’re talking on Latin America, where the issues . . .

KNAPP: They don't reflect much concern about a pile-up in commercial bank debt?

KAPUR: Right.

LEWIS: Let me ask [all speaking at once]

KNAPP: First of all, I think they should have had a lot more concern if they didn't. I'm a little surprised that you say that, but maybe so. There were some of us, starting with myself, that became very concerned about it—not so concerned about the quantity but especially concerned about the lack of direction and purposefulness.

LEWIS: Let me ask the question a little bit more pointedly; I think it's the same question. In looking at what happened in the ‘70s and how, what happened to the Bank's ability to give effective policy advice, one thing that we noticed is that this McNamara push on money targeting and that tends to weaken somewhat, perhaps, the ability of the operator to lay down a lot of policy conditions when you’re trying to move the money. But the other thing is—we've been saying to ourselves, at least, in drafting—that you sort of lost your market, that with the recycling phenomenon, all these people in Latin America could get money on very easy terms with no strings, and [all speaking at once]

KNAPP: That's right. With no strings.

LEWIS: With no strings. And so you were kind of left out on the side almost. Did you have that feeling at the time, then?

KNAPP: Yes, yes, some, although let me offer some comments about that competition. Yeah, it was somewhat alarming—well, I don't mean “alarming.” We always had plenty of business. I mean, we weren't alarmed institutionally about being
out-competed. But we were alarmed about so much of this money moving and so much debt being incurred for, as I say, undefined, purposeless objectives.

And yet, consider a couple of things: first of all, that commercial bank money was mostly five to seven years, and countries were interested in getting longer-term commitments, particularly since all that money was also at a floating interest rate, and any, you know, any reasonably sophisticated borrower is going to worry about having an open-end interest rate. Now, it's true from the Bank, also, that you're got that kind of a floating interest rate, as you know, but floating at a very different level.

LEWIS: Was it floating back then? The Bank's rate?

KNAPP: Yes, I would think so. Well, back when?


LEWIS: In the ‘60s I don't think it was floating [all speaking at once]

KNAPP: All right. Yeah, maybe you're right about that. I would have thought somewhere in the mid-‘70s we might have introduced that, but--oh, wait a minute. Let me think now, let me think. Oh, sure, we had a floating rate--certainly when I retired as the senior vice president in '78, we certainly had a floating rate then. And, oh, let me see. Maybe I'm a little mixing up floating exchange rates and floating interest rates. We had the foreign exchange pool. Well, maybe it's the exchange rate that was floating, but maybe the interest rate wasn’t. But certainly by the end of the ‘70s.

But, in any case, this money was obviously short term, and a country that could get a long-term commitment for 20, 25 years would prefer that. And I do think a lot of countries were interested in getting the technical assistance and technical cooperation that went along with project loans, and they didn't get that from commercial banks.

But it was--as I say again, I don't have the feeling that we ever sensed that we were being squeezed out of the market or were losing our role because of this competition. There was always, I think--I think we always felt that there was no lack of demand for, obviously, for IDA credits, but for World Bank loans.

WEBB: But leverage?

KNAPP: Yeah, leverage on policy conditions absolutely weakened. Weakened. Sure. Exactly. That's where we felt it, in terms of the leverage on, I would think on project conditions perhaps more than--but a little bit of both—but, you know, where we were lending to power companies and trying to get them to jack up electricity rates, why sure, the commercial banks just weren't interested in that kind of an issue. But in particular, when you're talking about financing large-scale, long-term investment projects by power companies, there particularly the idea of getting a long-term commitment was appreciated and valued.

LEWIS: Richard, you wanted to ask him some things about social things.
WEBB: Well, yeah, I’ve a number, a grab bag here. Some we’ve read, just went through in the—Cuba . .

KNAPP: Cuba?

WEBB: . . in the ‘50s. I don't see any record of any loans to Cuba.

KNAPP: I can tell you why there was no loan to Cuba. I think I have been over this before in these meetings, but . . .

WEBB: Have you? I . . .

LEWIS: I don't remember it, so maybe [all speaking at once]

KNAPP: Oh, okay. Well, look, there's a very clear story. I was in charge of the Latin American department at that stage, and Cuba was a prosperous country with their sugar trade, and thriving--there was probably more industrial development in Cuba at that time than in most Latin American countries. And we sent economic missions, and they came back and said, you know, “Creditworthiness.” [all speaking at once]

WEBB: The touchstone.

KNAPP: Which used to be the codeword. So, "Yes! Great, creditworthy country,” And we sent missions to appraise projects, and the first project they came up with was perfect. It was a power company, private power company, [inaudible] and well managed and this and that. And so we set up a program of, started to have lending in Cuba.

Well, there were two flies in the ointment. The first one was not so significant. We had some trouble getting from the government any kind of reliable financial statements about their debt and revenues and so on, and we kind of went a little slow at one point because of that. But that obstacle was overcome. Finally we got more information.

And then came a very critical question: the constitution of Cuba provided that any foreign debt, including guarantees, incurred by the government had to be approved by their parliament. And we began to hear noises that this was a very serious problem. We couldn't understand that because this was a fine project, and a guarantee was not accepting any really serious responsibility to the government because this power company was going to pay the loan off and so on. But yet the Cubans kept coming back and saying, "Oh, gosh, we don't want to give a government guarantee. How about a central bank guarantee?" or "How about a pledge of collateral?" or this, that and the other.

And this culminated—you see, it's a good question you asked me— in a meeting in which the Cuban minister of finance came into Black's office in the Bank. We were just really puzzled about all this business. And he said, "Well,“ he said, “Mr. Black,”

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he said, “you don't really understand our problem.” Our lending rate at that time was, say, 4%. And he said, “You know, you understand, we can raise this money in the market”—as indeed probably they could, even though we were supposedly basically bank of last resort. And let's say in the market they would have to pay 7 or 8%. But he said, "But, Mr. Black, the fact is your loan is just too expensive.”

He said, "Too expensive? 4%? Market rate’s maybe 7.”

He said, "Well, sir, you see we have this system in Cuba, a long-established system, and if we are to get government legislation to give the guarantee on the loan, we have to take care of the diputados. And,” he said, “I've figured out that taking into account what we would have to do for the diputados, this loan would cost us 9 or 10%.” Just as simple as that!

And we quit. We never could get this government guarantee. And you know, when a few years later [Fidel A.] Castro came along, we didn't have any loans outstanding there. And we paid them back their capital when they withdrew from the Bank, even including—no, not including a share of profits, because most of the profits had been plowed into reserves. I think maybe a little margin. But we had no problem with loans.

LEWIS: That's great.

WEBB: That's a great story. Do you think you--maybe it's in one of the other oral histories, perhaps.

KNAPP: Could be. Yes. I think I have recited this tale in some . . .

WEBB: I had heard you on this before.

KNAPP: Well, it isn't of any great--it's just an anecdote.

WEBB: No, because the [Francis A.] Truslow economic study, beautiful study, 1951, I think.

KNAPP: ‘50 or ‘51, yeah, yeah. Probably ‘50 because Truslow [both speaking at once] Now he was [all speaking at once] going to undertake this Brazilian mission, and he was on his way, and he was [inaudible] and I replaced him.

WEBB: There was a similar kind of mission to Peru in July—you were probably overseeing that, when Chaufournier was there.

KNAPP: Oh, yes.

WEBB: Do you remember that?

KNAPP: I mean, we did economic missions.

WEBB: He was resident there for years.

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**KNAPP:** Now that you mention it, I do associate Chaufournier with Peru.

**WEBB:** Nothing came of that, in a way. It wasn't a study or any major project mission. Do you have any recollection at all?

**KNAPP:** Was that--you know, at that time we were accustomed to publishing our major economic reports as sort of books.

**WEBB:** They don't seem to have been asked to do that, no.

**KNAPP:** Not a book on Peru? I honestly don't remember much about that. We did a lot of work on Colombia. There were books, I think, issued on Colombian studies.

**WEBB:** Currie's book, which launched the whole series. Yeah.

**KAPUR:** Which then was phased out or sort of seems to stop in the’60s for some reason . . .

**KNAPP:** As publications, yes.

**KAPUR:** Why was that?

**KNAPP:** Well, I think perhaps we just didn't have staff resources to develop material. You know, take the Cuban case. Now, there's a--having done a study like that, after that it was updating and so on. I don't know exactly. There was no--oh, I think we probably did--well, I'm sure we did get into problems. We always had problems in publishing these materials of clearing them with the governments, you know, and the degree to which you wanted to sanitize them for publication. This was a difficult problem.

**LEWIS:** I guessed yesterday that you did these things, the sort of initial studies of a country [both speaking at once]

**KNAPP:** To establish a kind of baseline.

**LEWIS:** Baseline. Then you get into more routine, [both speaking at once] the current operations and the grey-back sort of stuff.

**KNAPP:** Right.

**WEBB:** Currie has written a—he’s still alive, Lauchlin Currie.

**KNAPP:** Is he? Lives in Bogota?

**WEBB:** Yes.

**KNAPP:** Married to a Colombian, I think?

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WEBB: Yes.

KNAPP: He's kind of really settled in there.

WEBB: Oh, yes. He still writes. He wrote recently a book called Reflections on the Role of a Visiting Economist, and one of the essays refers to his book he wrote for the World Bank which really was this beginning in Colombia. The book, he said, tried to develop a menu of things the Bank could pick up, and he tried to get the Colombians involved so that the proposal was coming from the Colombians to the World Bank. And he really—well, the mix of proposals that he developed had a lot of balance between the economic and social infrastructure, the objectives. And these were on paper, and they were the menu that was presented to Garner, who down there to Colombia. Lauch’s menu was pushing health projects, education projects. And he tells a story in this later book that at one point Garner took him aside and said, "Lauch, what are you trying to do? You know that we're a bank. We can't go financing health and education."

KAPUR: I had [inaudible]


You see, I became head of the Latin American, Western Hemisphere department, as we called it, in September '52 just as I came back from Brazil. And a little later that year, maybe early in '53, I--Colombia was the first major country that I visited in my new capacity. I met Lauch Currie at that time, but I don't recall any kind of significant policy discussions with Lauch.

But that reaction by Garner really was, sure--Garner was a banker, a commercial banker, treasurer of General Foods, I guess, and maybe he was--but, at the same time, I'll say for Garner that he established some benchmarks in the Bank for financial analysis and for operating procedures which were very good, sound, reliable stuff.

Just on a personal basis I can tell you that when I was employed by the Bank, I was told that Bob Garner wanted to meet this new guy and to pass on him. Leonard Rist was the head of the economics department and, you know, his deputy . . .

LEWIS: Paul Rosenstein-Rodan.

KNAPP: Yes, Paul Rosenstein-Rodan. And Bob himself, I was told, didn't have too much confidence in this team. It was always a very hard-headed team. And I had a reputation of being a little more hard-headed, coming out of Federal Reserve, State Department. So I had my grilling from Bob at a luncheon at the Metropolitan Club. Anyway, I seemed to pass muster. Not that I was endorsing ideas quite . . .

WEBB: One of the--what I'm trying to [inaudible]--we were so struck with the Bank's experience with Indonesia as a kind of--that seems to be the most the Bank, the closest relationship that the Bank ever developed with a country, sustained, close, intimate [both speaking at once]

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KNAPP: No closer than India, I would think, or maybe Pakistan.

WEBB: But there wasn't any case in Latin America that seems to have come anywhere near that.

KNAPP: Colombia maybe came the nearest.

WEBB: Exactly, that was my question, because you start out with these marvelous reports in the case of Brazil. In one of your oral histories you tell the story of the marvelous people on the Brazilian side that were working on this with you. It isn’t like the conditions that existed when the Bank went into Indonesia in '68, '67, but it didn't develop into anything; in fact, the relationship with Brazil was seemingly interrupted. But this is just an impression that I have from outside. Do you have any thoughts on why it didn't work out so well?

KNAPP: Well, for one thing, yes, well, but let me comment--are you asking about Brazil or Indonesia? [all speaking at once]

WEBB: The difference.

KNAPP: But let me comment on Indonesia before we leave it. Indonesia for a period of all the days after Sukarno was deposed and Suharto came in and so on had, first, continuity--as distinct from Brazil which was chopping and changing--but that continuity also was supported by a strong team of western-oriented, you know what they call the “Berkeley Mafia”--they were all educated at the University of California in Berkeley--and a very strong central economic planning team who developed a very intimate and sympathetic relationship with their counterparts in the Bank. And there was a high degree of responsiveness by Indonesia to thoughts advanced by the Bank whether in terms of general economic policies or development orientation or projects. And I would say that that accounts for the much closer relationship and much more undisturbed, continuing contact that we had with them. It was almost unique.

LEWIS: Just as a footnote there, let me ask you whether you as a senior boss of operations were annoyed—we understand that when McNamara went there that he took Bernie Bell with him, and he had sort of thought Bernie was going to be the resident. It seemed to be quick, really quick with Widjojo [Nitisastro]. And he gave him a mandate that, "You are in charge, and nobody can intervene between you and me." Is that right? Does that . . .

KNAPP: Between Bernie and Bob?

LEWIS: Yes.

KAPUR: I guess Ray [Raymond J.] Goodman, who was the director of East Asia at the time—I mean just reading between the lines—it seems quite evident that he was not particularly happy at the . . .

KNAPP: Well . . .
KNAPP: I would say that Bernie did get a very strong mandate from the president and a promise that Bernie would always have access to the president. And it might even have extended to saying, "Don't worry too much about dealing with the vice president." Was that Goodman at that time?

KAPUR: Yes, he was the director at that time.

KNAPP: Director or whatever. But I don't think Bob ever cut me out of the loop. I never felt that way.

KAPUR: From this Indonesia story it seems that for some reason the Bank had taken always a conscious decision not to go too heavily into field offices, and Indonesia is a stark contrast to that. And I would have thought that, at least the '50s and '60s when communication was much more difficult, travel was less easy, that one might have leaned in precisely the opposite way. One might have a more field presence precisely because travel was more difficult. What sort of led to that organizational structure?

KNAPP: To the limited field offices?

KAPUR: Right [all speaking at once]

KNAPP: As contrasted with, say [all speaking at once]

KAPUR: Or, say, the Indonesian mission.

KNAPP: Well, the reason for the Indonesian mission being an exception to the general rule is what I've been saying about that sort of kind of close relationship. But more generally about field missions: this was a subject of continuing discussion and debate in the Bank from time to time. Almost every time a reorganization came up, we would say, "Well, should we be more decentralized?"

The deterrents to decentralization, which led it to be done on a very limited basis, really, were, first, the cost. I mean, the budgetary cost of these foreign missions is terrible. The local rents and the home leave for staff and salaries for staff to induce them to accept what were often regarded as not very desirable posts and also the unwillingness of the better staff to go to field missions because they felt that took them out of the loop in the Bank in terms of career and promotion, and the fact that we had some experience with--I think our observation of AID missions made us feel that people, if left on resident posts too long, which meant longer than a year or two, got a certain "localitis" and a certain . . .

KAPUR: Went native?

KNAPP: Yeah. But of all those considerations it does seem to me that the, probably the number one deterrent was just budgets, the cost. I mean we were . . .

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KAPUR: It surprises me, I must say, because the figures of just, say, the support staff would cost one-twentieth in the LDCs [less developed countries] compared to support staff in Washington.

KNAPP: Well, we're talking about expatriate staff.

KAPUR: Right. No, we're [all speaking at once]

KNAPP: The expatriate staff--I had this experience several times. To rent a house, a home, in Dhaka or in Zaire in Kinshasa, for a reasonably respectable home for, you know, a World Bank officer, chief of mission, and even his senior officers--they have to be maintained in a certain living style--and it was outrageously expensive.

LEWIS: Yeah, housing can be very expensive, but what he's talking about is the secretaries and so on, the local hired staff.

KNAPP: No, I'm thinking--no, local hired staff is another question. But I'm just thinking of the cost of maintaining expatriate staff.

KAPUR: [inaudible] costs too strongly [inaudible]

KNAPP: Well, of the considerations that I have cited, it comes to my mind as kind of number one.

LEWIS: Let me ask. I’m interested--you haven't mentioned the following. I suspect this is--it was always sort of speculative reason in my mind, but it does raise sort of an issue of the homogenizing of the staff of the Bank. As an outsider, I tended to have quite a lot of admiration for the fact that the Bank obviously is composed of a variety of nationalities, north, south and whatnot. And, as opposed to my perception of U.N. agencies, for example--I'm not sure that this; I mean, the Fund may be an even more extreme case of what I'm trying to say--but the Bank has achieved a kind of commonality of outlook, style, whatnot, across this set of very diverse sources of personnel, and that seems to be an asset. And it occurred to me that it might be harder to do that if you had them spread all over the world than if you had most of them living and eating and whatever together in Washington. Quite aside from that explanation of centralization, as a leading—you probably were the, had the longest run of being in top management in the Bank of anybody, does that issue every kind of consciously in your mind, of how you make a Bank-style person, or . . .

KNAPP: Oh, yes. Oh, very much so. In fact, I used to kind of talk to each incoming--I guess this was in earlier years when the incoming influx of people was not so great. But I used to talk regularly to every class that was coming into the Bank of employees, employees that had come in the last two or three months, say, and they would be assembled, and I would give them a talk about the Bank. And I would always talk about the "Bank personality" and the esprit de corps and the, specifically the shedding national interests and becoming international civil servants. Now, this may sound to you a bit like preaching, but I did preach the gospel.

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Now, the core of that was to say, "Well, now, look, fellows. You have all been hired on a merit basis. You've not been hired because of political interventions or favoritism and so on. True, we have a general policy here of keeping some kind of balance of nationalities in the Bank, but nonetheless you have been hired basically on a merit system, and you are going to be rewarded and promoted, dismissed on the basis of your success in developing a career on a merit basis." And I think I was usually indiscreet enough to refer to other agencies, and I’d say, "Bear in mind we're very different from the United Nations. And the reason we're different is just very simple: in the United Nations, the budget, the administrative budget, is supported by national contributions, and people that are contributing to the budget expect and hope and‖—I wouldn't say hope, but maybe more “expect”—“that they're going to get a proper share in posts. And the nominations to those posts in the United Nations mostly come from governments." And I said, "Now, it's just so different here. I mean, we recruit ourselves. We don't act upon governmental nominations. We recruit people, and we have this merit basis that is excepted from political intervention and influence.”

Now, you mentioned the Fund. I think—I can't speak for the more recent years, mind you, but up to the time I left the Bank, say, in '78--I stayed there for awhile longer but by the time I finished my service as senior vice president--I think I saw a clear distinction between the Fund and the Bank. In the Fund, when positions came open, director positions and that sort of thing, there was a very active lobbying by governments to get that assignment, to get that post. And a further distinction, which is related to that, that we tried to avoid using in an area, so far as it was really obvious [inaudible], using in a country a man from that country to direct the lending operations there or even on a continental basis for awhile we avoided that--although we came to a point where we were using a Latin American as the head of the Latin American department--because of the obvious conflict of interest. And yet in the Fund, if a position in the African department came open, it was earmarked for an African. And the contest was among the African countries to lobby for their man to head that African department. So in that sense we were much purer, if you like, up to the time I left.

LEWIS: You did hear [all speaking at once] the Germans and the Japanese.

KNAPP: Well, the Japanese came to be, yeah, yeah. Of course, I don't mean to say—you know, I've come to overstate this a bit, especially at the most senior levels, the vice presidential level. And we certainly did come to be pressed by the Japanese. It became a very special problem, and still is a special problem . .

LEWIS: Yes, indeed, it is.

KNAPP: . . although they’ve managed to bring Japanese into positions but not into very important positions or significant policy positions. But, well, I guess that's about it.

KAPUR: I was wondering if you might reflect a couple of moments on the Bank and how it got involved in some of these centrally planned economies. I'm particularly thinking of Romania and Algeria, although Algeria . . .

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KNAPP: And Algeria?

KAPUR: Right. Although Algeria is not usually [both speaking at once]

KNAPP: No, but it was [both speaking at once]

KAPUR: . . but it was really a centrally planned economy. And Romania, I’ve seen in the files commenting a little bit of a difficult relationship with the Bank because of the way they were with the whole [inaudible]

KNAPP: Well, I had personal experience with Romania, initiating our lending in there, and I paid a couple of visits to Bucharest. You have to start with the proposition that Romanians are very difficult people. They really are very difficult people. That's number one. Number two is the atmosphere in the time that I was there was one of great official secrecy, and when, for example, we would start talking about a power loan in Romania, we would find that the basic facts about the power market, about the power system, were official secrets. And we were, almost felt that in—there was the phase "economic espionage," which had been used at some times, I remember in Africa particularly, about the World Bank missions and so on, were accused of economic espionage. I don't remember the Romanians actually using the phrase, but that was the sense of it. And obviously this made—and at the national level, I mean at the national economic level, to begin talking about the public debt or the exchange reserves, these were all--I don't know how far down the exchange reserve [inaudible], but I would say probably it was an official secret. So obviously that makes it a very difficult start on a relationship.

KAPUR: But how did you get . . .

KNAPP: And yet because Romania was the first country to break out of the Eastern European mold, the first country to revolt, to rebel against the Soviet--the Soviets, you know, had cast down an Iron Curtain on the Eastern European countries, many of whom were very keen on going the Fund and the Bank for many years.

But I remember, for example, before '68, before the, going into Czechoslovakia, that there were a lot of kind of talks going on with the embassies in Washington and that kind of thing with the Bank and Fund personnel and a lot of inquiries. Romania had broken through by then, but they were the only ones. But all those--a real Iron Curtain fell with the Soviet intervention in Prague. These people didn't even--I didn't have this personal experience, but people told me they would pass them in the street, wouldn’t even recognize Bank people. Well, anyway, all I'm saying is that when the Romanians did break out of that mold, we kind of received them with open arms and kind of, you know, did our best to put our best foot forward and go to work and [both speaking at once]

KAPUR: The initiative came from them or . . .

KNAPP: Oh, yes. For membership?

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KAPUR: Right.

KNAPP: Oh, of course.

KAPUR: But then after that?

KNAPP: But after that they were regarded as kind of very welcome into the fold, and we made a kind of a special effort, I think, to give a quick response—not an unrestricted response but a quick response to their needs. But yet it took us, I think, some time because of these obstacles I've been talking about, especially about official secrecy, to make our first loan there.

Of course, later on—it's not that important for your purposes, I suppose, and I don't know the details of it—but I understand that later on the Bank got into real trouble with Romania about the repayment of Bank loans, about the currency in which they should to be repaid, and all that. And that led—along with the general policy of [Nicolae] Ceausescu, to terminate their dependence on foreign loans—that led to the prepayment of most if not all the Bank's loans.

KAPUR: The Romanians were outraged that they had been repaying the Bank, and at the end of four years they had to repay more than what they started off with. The stock was more because of currency fluctuations.

KNAPP: Well, more in terms of [all speaking at once] in terms of U.S. dollars.

KAPUR: But the lack of information, the lack of openness: that did not, that sort of commented on but the Bank still thought it could work with that.

KNAPP: Well, we insisted upon getting a lot of information which was initially denied to us, and we gradually squeezed it out of them.

LEWIS: That—I'm trying to think. Was that encouraged by the U.S. at all?

KNAPP: No.

LEWIS: No. Ceausescu made a sort of a hit with [Richard M.] Nixon, didn't he? That he was somehow . . .

KAPUR: The China thing also Nixon used, the China opening [all speaking at once]

KNAPP: But I don't have any feeling that the U.S. was pressing.

KAPUR: Because the Wall Street Journal had a big piece around late-'70s on how—
or maybe early ‘80s—on how McNamara had accepted these numbers of Romania, from the government of Romania, without [inaudible] outstanding growth rates of about 20% and that you were bearing Bank obligations.

KNAPP: You know, oddly enough, I seem to remember that. I didn't know it was the Wall Street Journal, but some journalistic story about it. And let's distinguish

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now between two things: we were first refused that kind of information as official secrets. Then we pried it open, and we were given these figures. Now, who were we to say--we might have been very skeptical about these figures, but who were we to say they were false? You know, that's a little hard to do vis-a-vis a member country, to say they're lying to you. I remember the skepticism in the Bank about these figures, and I guess they subsequently proved to be false. I don't know what you do when a member country gives you a figure and . . .

WEBB: It’s never been the Bank policy in that regard because this happens--I mean, that was an extreme case--but there's always problems of that kind, some doubts about figures.

KAPUR: Especially with debts.

WEBB: The U.N. is religious about never questioning a member country’s official figures.

KAPUR: The Fund does a bit more.

WEBB: And the Fund doesn't have to worry because their numbers, their exercises are just private, and they develop their own numbers all the time, routinely. The Bank is somewhere in the middle because it does publish a lot more so that the numbers that it is using for its own analysis will get around more and so . . .

LEWIS: Ever since the WDR [World Development Report].

WEBB: Well, that's--yeah. But, you know, in country analysis this was never kind of defined as a policy in the Bank. What do we do in these cases?

KNAPP: Well, you say "in these cases," but the question is how do you establish that this is the case, that these figures are false?

WEBB: Well, from a sense that you have. There is really very little . . .

KAPUR: I mean, in the sense that when—we have seen that in the files on Romania--when people did express skepticism, what would then sort of happen? I think the same happened when China joined the Bank. There was a great deal of, you know, on what its per capital income ought to be at the start, and the Chinese said, "This is it." And especially in the centrally planned economy where prices are, you know--so then it becomes much more difficult whether one should accept their . . .

KNAPP: But then you have to ask how significant are these figures to the Bank.

KAPUR: Right.

KNAPP: If per capita income were used to establish, for example, eligibility for IDA, you know, that’s significant.
LEWIS: Well, that's exactly what happened in the China case [all speaking at once] and it's scandalous. I think there's almost no question--this is since your time--but that the China numbers had really been cooked, way down, to justify the same share of IDA as India. And if you extrapolate them back to 1965--and most people think the growth rates are better than a level rate--the Chinese are grubbing for roots and berries in 1965. They had almost no per capita income at all. And I think that's—it’s the worst case I know of, and it's also senior (although not vice presidential level) officials of the Bank who will say quite candidly, "Yes, it's political."

KNAPP: Gee, I'm sorry to hear that.

LEWIS: No, this has actually been said to me directly. And there is a more sort of sophisticated explanation that could be given that would even challenge that, but this was by somebody not just on kibitzing from the side. But I think at any rate that it is not an easy issue. I mean, as you say, a member government comes in with a set of numbers, and it's not always easy; although I must say in the Chinese case the Bank has had so much presence in Beijing for so long doing all sorts of analytical, almost textbook-writing work, that for it not to have an independent view of what the GDP is is kind of strange.

KNAPP: Well, now, let me offer you another comment on this thing, which has to do with the test of per capita income as the test for eligibility for IDA.

LEWIS: Yes.

KNAPP: I think this has been very much misunderstood and misrepresented, at least insofar as I can speak up to my time. It's quite right that we put out figures on eligibility for IDA in terms of per capita terms, but the test, if you read the papers and see the representations we made to the Board and the policy decisions of the Board, the per capita income test was merely and only a trigger--a trigger--for an examination of that country's creditworthiness for World Bank loans. And we would say that generally speaking, roughly speaking, it's that kind of per capita income level, but it is to trigger an examination of the creditworthiness of a country to determine whether--well, to determine creditworthiness. I mean, the test for Bank versus IDA—I keep using this term "creditworthiness"--but the test in my day for the Bank versus IDA was a lack of creditworthiness, and a lack of creditworthiness had a certain association with per capita income. But on that basis, you see, I would say that this question of per capita income of China is not all that important because the real issue was a basic analysis of their capacity to sustain external debt.

LEWIS: But you see what happened in different—I guess this was really after your time, too--but the IDA carve-up was fairly difficult, of course, and India had gotten down to 40%. And now you've got this new giant joining, and you also have a push coming pro-Africa, and so the Indians—but what's come out is that the two giants each get 15%.

KAPUR: Quite a [all speaking at once]
LEWIS: Quite a--it is not a question of [inaudible] but in order to justify the 50 equality, you had to hold that GDP per capita number down. The percentage should be at least twice as high as India's, I think, no question.

KNAPP: Well, may I make two comments about that?

LEWIS: Yes.

KNAPP: One question is eligibility; the other question is allocation. But the other point is that India, you said, came down to 40%. They were always 40%.

LEWIS: They used to be higher back in the '60s.

KNAPP: I don't think so.

KAPUR: India by '75 was already 35%.

LEWIS: Well, it wass up close to 40, I think, [all speaking at once] by the end of the '70s.

KNAPP: Oh, close to 40. Yeah, but wait a minute now. It may be, it may be that so to speak by accident because of the accident of loans coming along, IDA credits coming along, they slipped over that limit to 41 or 42%. But unless I'm quite wrong .

LEWIS: Okay, I'll buy that.

KNAPP: . . you'll find India never got over 40 %. Now, the reason I say that is that right back at the beginning of IDA, when they were laying out the basic terms and allocations and all that sort of thing, somehow the formula crept in--and it was only initially--but the formula crept in that no country should contribute more than 40% to IDA and no country should receive more than 40% from IDA. And the U.S. share, I think, at the very beginning of IDA was about 40%, and it's declining, you see. India's share, partly under my insistence, kept at 40 because I kept saying, "For Christ's sake! You've got this huge, huge country! Look at what it is on a per capita basis" and so on. So I kept insisting that India should retain the 40%.

LEWIS: I've got it. What I'm thinking of is 55% for South Asia. There's another 15% [both speaking at once]

KNAPP: Oh, yes. Oh, yes. For South Asia.

LEWIS: And that's the—the Latinos were very unhappy about that. But at any rate, I think that this business about numbers reminds me, how interested were you in the [Irving B.] Kravis exercise? Do you think--I mean there's a case, I mean, if you want to really get the numbers straight .

KNAPP: No, wait a minute. Which exercise?
LEWIS: Irving Kravis. This is the . . .

KNAPP: Oh, the purchasing power Kravis.

LEWIS: Now, there's an attempt to actually get the numbers straight.

KNAPP: Sure, sure. I was very much interested in that, always have been. Well, I think all the people in the Bank were very much interested.

LEWIS: It took a long time for it to go anywhere. I mean there is this . . .

KNAPP: I know. I know. I think at one point the question came up about the Bank actually subsidizing that project.

LEWIS: Oh, it did.

KNAPP: Did it?

LEWIS: Yes, it did, but . . .

KAPUR: But the Bank for some reason I think was not as interested as it might appear.

KNAPP: You think that?

LEWIS: I really [both speaking at once]

KAPUR: I read a letter in the Hollis file, at least later on, it was a little more "Yes, it's good. It's a good thing to have, but, you know, let's get on." You know.

LEWIS: But they’ve been using the other numbers, and everything gets based on them. All sorts of deals and things [all speaking at once]

KAPUR: I see that the PPP [purchasing-power parity] is never used in any decision-making—any. So that, I think, in itself is indicative of the actual interest.

KNAPP: Sure. It's just embedded in my thinking that all these international comparisons are false—I mean, of per capita incomes. I mean, you know, people say that India has—they take the formal per capita income and say, "It's 8%" or whatever percent of the U.S. standard. It's all nonsense.

LEWIS: Of course it is. And that's what the Kravis thing was, multiply India by about four times, you see, or something like that. It's about the biggest [inaudible] of anybody, but . . .

KAPUR: I was wondering, you know—I’m sorry, on the centrally planned economies. In these countries you didn't have any private allocative mechanism. How did the Bank grapple with that, I mean, it was so used to saying this to everyone and . . .

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KNAPP: Excuse me. They had no?

KAPUR: . . like Romania or Algeria.

KNAPP: What did they lack?

KAPUR: I mean, free markets.

KNAPP: Free markets [all speaking at once]

LEWIS: Prices were just an administrative determination.

KAPUR: And the Bank was much more [all speaking at once]

KNAPP: And exchange rate, of course, was very dubious.

KAPUR: And in all these things the Bank had a very strong, you know, concerned about, a very strong point of view. So how did it deal with this?

KNAPP: I'm not really sure what the thrust of your question is. How do you deal with it? Well, gosh, in what respect, how do you deal with it?

KAPUR: I mean, in a sense, you know, just cost/benefit analysis. Well, let’s say, you know, you have--normally you have prices and . . .

LEWIS: How do you decide whether a project is a good project?

KNAPP: Well, all right. There was always a critical question of exchange rates. In regard to the centrally planned economies there was always characteristically a much [inaudible] varied exchange rate. And so you used the shadow exchange rate to the extent that you had foreign exchange issues entering into your cost/benefit calculations. But I don't know. What other problems do you have in cost/benefit calculations? You obviously have the labor rates, or the wage rates are out of line, or the cost of inputs are subsidized. I mean, on that issue of subsidized inputs, I mean we tried to adjust those through shadow prices, as far as I can remember.

KAPUR: So were shadow prices used much more extensively?

KNAPP: In centrally planned economies? Yes, yes. Clearly so. Yeah, I can see, as I think about it more, that you do have a lot of special problems, but I guess that my basic answer would be that we tried to deal with them through shadow pricing of inputs, outputs, exchange rates.

WEBB: It would also seem to be a bit awkward delivering the Bank policy advice—during the ‘80s; in the ‘70s maybe less—with such an emphasis on deregulation, free marketing, and making that a strict condition of a lot of the lending. It’s a little bit—it seems like a shock to the system to have to deal with a centrally planned economy.

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KNAPP: Well, take Romania.

WEBB: You had to [both speaking at once]

KNAPP: We never pressed Romania to privatize state industries. I mean, you know, you were kind of wasting your time if you tried to. No, I think to a considerable extent, if you take cases of real, you know, real socialist, centrally-planned economies, we didn't try to challenge the very basis of the political or economic regime.

WEBB: Did you go as far as saying, "Well, let's assist them, that does work, it has its own logic," or were you thinking [both speaking at once]

KNAPP: I don't think we needed to go, say it has its own logic. We simply didn't challenge it.

LEWIS: Let me ask a related question—it’s sort of interesting, now that I think of it-to get your testimony on this one? In this liberalizing neoclassical trend that we associate with, particularly the last ten or fifteen years, but in the Bank this kind of thinking about the virtues of the market as an organizing mechanism has been there all the way through, really. I have tended to argue, and I think that McNamara more or less agreed with the following, that there is a distinction to be made between the market and the private sector, as to say that you’re interested in the . . .

KNAPP: You're interested in competition and markets and the right pricing.

LEWIS: That's right.

KAPUR: Not ownership.

LEWIS: Not ownership so much, that ownership is more a matter of history, of local politics, and it's not so much the business of an apolitical outside agency like the Bank to stick its nose in that mess. But you are concerned about the technical efficiency of the markets, in my opinion.

KNAPP: Efficiency. Exactly.

LEWIS: Now that was--do you think that was sort of the philosophy during the ‘70s?

KNAPP: Yes. Yes. I would certainly say so. Now, we did have the issue about government enterprises, and this came up when I was talking to Kathryn this morning because she said--it also had to do with relations with the U.S., and she said that one of her cases in point was that the U.S. had been opposed to lending to the steel industry in India because (this was in the context of commodities, the protectionist kind of thing) and that they were opposed to the loan to the Indian steel industry because it was steel. And I said, "Well, Indian steel, of course in export markets, has never been competitive with the U.S., and as far as the import market was concerned, the exchange was so restrictive there wasn't any real competition." I said, “The
determining thing in the case of opposition to government loans for government steel companies was that they were government, not that they were steel.” [both speaking at once]

KAPUR: That was the way [inaudible] ‘60s and ‘70s. I'm quite sure in ’87 it was very different.

LEWIS: Which case . . .

KNAPP: Well, I'm going back to the ‘60s and the ‘70s.

KAPUR: I’m talking, really, of the ‘70s.

KNAPP: Well, I'm going back to the time, for example, when [all speaking at once] loans--well, wait a minute, when loans to the Tata plant had no problems.

KAPUR: That’s right. That was in the ‘50s.

KNAPP: But increasingly loans to government steel plants did encounter problems [all speaking at once] and the issue was government management, not protectionism about steel [all speaking at once]

KAPUR: The Japanese steel industry--the Bank made all these loans [all speaking at once]

KNAPP: That’s my point. In that project we financed the advanced competition for the U.S. in the Japanese steel--that was at an earlier period still.

LEWIS: So yeah, there was a concern about state enterprise and the efficiency of it, I suppose.

KNAPP: Well, that was the difference. Where we were accused of fostering government enterprise, our defense would be, if you want to go ahead with such loan that, even though this was government owned, that it was operated on competitive market pricing principles and that one shouldn't, you know, reject it on ideological grounds. And over a period of time, of course, we did in the ‘60s and ‘70s lend a lot of money to various government enterprises.

KAPUR: That was particularly true of Africa.

KNAPP: Yes.

KAPUR: How do you see Africa? In reading your files, at that time you seemed to—-and your oral history--you seem to have been a little bit wary about the Bank's involvement in Africa. Is that a fair . . .

KNAPP: Yes, perhaps, especially when you say "Bank."

LEWIS: As opposed to IDA?

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KNAPP: As opposed to IDA.

KAPUR: Okay [both speaking at once]

KNAPP: My concerns were about creditworthiness, first of all, but also about regimes. I mean, I dragged my feet on lending to Zaire under Mobutu [Sese Seko], and I still have [inaudible] on that. And other, you know, kind of rotten regimes.

KAPUR: And at the same time McNamara was pushing big things into Africa, the Bank group . . .

KNAPP: Yes, that's right. Yeah, McNamara got, you know, very sold by Julius Nyerere, for example, on socialism in Tanzania. But, yeah, all right. In relation to McNamara's kind of expansionist and very active pushing of lending in Africa, I was more conservative, certainly on the [inaudible] You know, on IDA credits, even on IDA credits, you have to ask yourself about the efficiency of the application of capital. I mean, IDA allocations ought ideally to be made on, strictly on the basis of where you can find--but you introduce a lot of other considerations of equity and so on. But, yeah, I guess I was skeptical about African capacity to utilize funds efficiently.

KAPUR: How do you see those who say, who allege that the Bank group's involvement in Africa in the ‘70s actually contributed to the problems which came up in the ‘80s?

KNAPP: Well, can you make that more specific?

KAPUR: Well, you know, whether the regimes which, some of them didn’t really stay long in place because they had access to easy capital. The parastatals, especially in agriculture, were fostered, which became major impediment to agricultural growth.

KNAPP: Well, to some extent I would accept those arguments. I mean, I've just said with respect to Mobutu I still think it was--we did more than we should have in allocating funds to Zaire. But with regard, when you say Africa generally, I guess for one thing I have to say I'm a little out of date about Africa generally. I understand that, for example, that a lot of the agricultural projects that the Bank launched in different African countries have proved to have not been very successful and that some of the lending for industrial credits through local development banks and that kind of thing have not been very successful, but I don't know the record well enough on that to [both speaking at once] offer useful comment.

LEWIS: Were you very aware of Uma Lele back in the ‘70s? Was she was making any kind of noise that was reaching management levels?

KNAPP: Noise about what?

LEWIS: Reaching management, I mean [both speaking at once] Uma was . . .
KNAPP: Oh, sure. She was an unmistakable character. But I think there was a stage at which she was regarded more as a character than as a fount of wisdom.

LEWIS: I find her pretty persuasive.

KNAPP: I think she's very good.

LEWIS: Yeah, I think she's pretty persuasive. I think the area development projects turn out to look pretty, pretty bad in that respect and . . .

WEBB: I'm going to see to my parking problem.

LEWIS: Oh, yeah, yeah. Well, you better—we’re going pretty soon, anyway. We've really worked him over!

KNAPP: Well, all right, I guess we’ve both run out of . . .

[End Tape 1, Side B]
[End of Session 4]
Session 5
October 10, 1995
Washington, D.C.

[Begin Tape 1, Side A]

LEWIS: Well, we’re going to have a chapter in this mountain on the Bank as an institution. Our outline originally called for one that would be looking at the Bank as an institution sort of from the inside or at the inside, the organization and process and style and so on, and another that was going to look at the external relations of the Bank. And under the pressure of time, for one thing, we decided to put that all together in one chapter on the institution.

KNAPP: Yeah, yeah.

LEWIS: We have--so far, we don’t have an outline of it. We have a kind of a--this is sort of a menu. [hands paper to Knapp]

KNAPP: Right.

LEWIS: This is a kind of matrix of stuff that we think ought to be addressed or deliberately avoided in some cases, but--and so it says simply that we probably use the period of the present as the sort of chronological sequence of the thing, and then in each of these periods, Black and before, Woods we now think of as a separate hunk, McNamara, and then post-McNamara, stopping with [Lewis T.] Preston, probably not the whole of Preston, and these are things that we would--sort of bases we would touch or at least think about in each time around the track in those time periods.

KNAPP: Right.

LEWIS: And then on the second page towards the bottom there are the—there’re what we think of as noteworthy events that really would be sort of the highlights of the story. They’re not--it’s not an exhaustive list, but it’s some of the things that we think are important.

KNAPP: “McCloy’s conditions for serving.” That’s an interesting story.

LEWIS: Yeah. Yeah, right. Right.

KAPUR: It could never be repeated now.

[ Interruption ]

LEWIS: Any sort of analog organizations that you felt, that you, that were sort of like what you were getting into. You came from State, I guess?

KNAPP: That’s right.

LEWIS: Did it feel more like State or did it feel more like downtown New York?
KNAPP: I didn’t know downtown New York very well.

LEWIS: No, that’s right.

KNAPP: I worked for six months in New York, and I didn’t like it much, so I came to Washington.

LEWIS: Right. Well, we’ve been running into some people who have been using corporate analogs for the Bank as though it’s basically what the Bank has been trying to be is like some kind of a corporation. I guess I come at things from a more governmental background. I think of as a kind of a government-like thing.

KNAPP: Well, I’ll tell you. You see, I had considerable service in the Federal Reserve.

LEWIS: Uh-huh.

KNAPP: And I would draw analogies to that.

LEWIS: Yeah, yeah.

KNAPP: You had a Board of Directors who were certain personalities who had--a governor who was the Chairman of the Board. You had a very strong research element at the Fed, and yet you were--it had significant operations, not the same kind of operations as the World Bank.

LEWIS: Right, right.

KNAPP: So, it was certainly a different kettle of fish from the State Department, but I would have said within my experience it was--had a lot of analogy with the Federal Reserve.

LEWIS: That’s good.

KNAPP: Sort of a--you know, also an institution of a kind of a--endowed with very important public functions, but yet the Fed had an orientation toward the private sector and a familiarity in relationships with the private banking sector, which came also to be true of the World Bank when it began its fund raising.

LEWIS: Right, right. Okay. Very good.

Jumping around--this is conceptually quite a jump, but it also goes, I suppose, to the early days, but it’s a character that has—a factor that has continued. I’m talking about what they call now in economics literature a “soft budget constraint.” You know what that means, that the--Janos Kornai, who’s partly at Harvard now, has talked about it in the case of Hungary, arguing that this is ultimately what does in the public sector corporation, that it’s got somebody who can come in, bail out errors. Its budget is not really hard, it can be supplemented by public monies or somebody’s money,

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and that this is really very corrosive to efficiency. And this has gotten to be quite a conviction in the Bank’s appraisal of that public versus private sector issue in developing countries. But it struck us that if you look at the Bank itself, that it has had a consistently almost soft budget constraint. It’s been able to--it started, almost stumbled into this business of the annual [inaudible] by borrowing in the private sector, lending to its borrowers at a markup, with a government guarantee, and in a way that has yielded consistently quite comfortable profits, almost more profit than can be used up.

KNAPP: Right.

LEWIS: And so the question of how you dispose of the earnings has been an issue.

KNAPP: Well, let me offer you a slant on that.

LEWIS: Right.

KNAPP: You will find over the period in most years that the Bank’s profits are equal to something like a 6 or 7% dividend on its capital, and the charter provided for dividends, and had the Bank paid its dividends they wouldn’t have had any--its regular dividends--they wouldn’t have had any problem about finding uses for the surplus.

LEWIS: Right.

KAPUR: By 6 to 7 % of capital?

LEWIS: Six to 7.

KNAPP: Of paid-in capital.

KAPUR: Of paid in.

KNAPP: Paid in.

KAPUR: Not the reserves?

KNAPP: No. Well, I don’t know. Yeah, say capital and reserves, too.

KAPUR: Right.

KNAPP: Paid-in capital plus reserves. Well, without making too much of the arithmetic of it, if the principal donor member countries had asked for a dividend, it would have been a very different picture. And in a way, you see, one hears the statement from the developing countries that they’re the ones that are providing these profits to the Bank because they paid the interest on their loans.

LEWIS: Yeah.
KNAPP: I say it’s the donor countries that have created the profits for the Bank by abstaining from a dividend.

LEWIS: Was there ever any thought of demanding a dividend of [inaudible] dealers?

KNAPP: Under George--when George Woods came in, up to that time there had not been. But when George Woods came in, I think this is in some of your own material that I refreshed my memory. He raised the question about, you know, a dividend. Things were going pretty well. The attribution of funds to reserves . . .

LEWIS: He inherited from Black [inaudible]

KNAPP: That’s right. Of course when IDA came along, then that offered an obvious place to make allocations to IDA. Bear in mind, there was always--there was always the pressure from the borrowing countries to have the interest rate reduced.

LEWIS: Sure.

KNAPP: I mean, that was the easy way to eliminate excess profits: reduce the interest rate. And--but when it came to be used for contributions to IDA, that meant that the, so to speak, the middle-income borrowers were subsidizing the poorest countries by paying their interest charges and the proceeds being used to contribute to IDA.

I’ve been kind of wondering--as an aside--whether there won’t be a lot of pressure on the Bank to increase its contributions to IDA if IDA gets cut back as thoroughly as looks now to be the case. But Bank profits can go a long way to fill that hole.

KAPUR: The competing thing has now become this idea of a debt facility, you know, the multilateral debt.

KNAPP: Yes. I don’t know much about that.

KAPUR: And that is also a [inaudible] of 11 billion. Basically the IBRD’s own debt, which is about a quarter of that, will eventually have to come out. I mean, if you create a trust fund, the money comes out of it.

KNAPP: You know, [Michel] Camdessus in his speech today referred to that as a very important subject that they were working very actively. I don’t know much about what the approach to that. Let me just ask you: if I understand correctly, there’s been a lot of talk so far but no decisions have been . . .

KAPUR: No, no.

KNAPP: That may come as part of this review that’s being undertaken by the . . .

KAPUR: The MDB [multilateral development banks] review.

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KNAPP: The [K. Sarwar] Lateef – Mohamed review?

KAPUR: No, I think it was essentially--I think [James D.] Wolfensohn sneaked it out in the sense of leaked it. It’s a brilliant PR coup for the Bank, you know. The NGOs love the Bank now for a change.

KNAPP: Well, I’ll tell you, I attended that sustainable development conference last week, and I thought it was an excellent conference in terms just of, you know, standing-alone conference, what it was dedicated to, and so on. They had a wonderful lot of panels, presentations.

What I also thought, this is marvelous public relations for the Bank with the NGOs. I get a load of this, I can tell you, out in California because there are all these environmental organizations and so on, and they are always on my neck about the World Bank. How can I take a pension from the World Bank? That’s pretty easy.

But what is the idea? Has specifically the idea been mooted of World Bank profits being employed to subsidize the multilateral debt relief?

KAPUR: The idea that a trust fund will be created, so it will be a hands-off, and it will take care of all multilateral debt to a specific group of countries. However, where is the money going to come from? If it comes from the donors, then IDA, which is already pretty much becoming a zero-sum game, and otherwise the Bank is expected to contribute. The Fund is expected to contribute.

KNAPP: And the countries.

KAPUR: Right. Now, how will they contribute? The Bank can only essentially contribute through net income transfers.

KNAPP: Well, the Bank might, of course, contribute by refinancing some of these obligations . .

KAPUR: That’s what it’s been doing.

KNAPP: . . on very liberal terms.

KAPUR: That’s what it’s been doing. I mean, through IDA, you give them mare IDA, and they give back to you.

KNAPP: Yeah, yeah.

KAPUR: But it’s precisely to get around this refinancing business, which essentially does not make perhaps a mockery, but really undermines all conditionality because everyone knows you have to give the money to get it back.

KNAPP: Yeah, sure.

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KAPUR: And then and at the same time you’re going through the charade of structural adjustment loans, so it’s I think to get around that that you say, look, this refinancing business is just becoming a game.

KNAPP: Well, this is a diversion from our . . .

KAPUR: No, it’s in lending all the time.

KNAPP: Now, other ideas, you know, have been to use World Bank profits for the endowment of some kind of foundation that would make grants. We used to talk a lot about that, but I don’t know. The feeling was, well, there are the foundations in the world: Ford, Rockefeller, and others. It’s not quite our business.

KAPUR: Do you remember that Woods and the idea of Bank profits being sent to or being used or transferred to IDA or about the Bank profits being transferred to IDA, that he had been strongly opposed to it?

KNAPP: Who had been?

KAPUR: George Woods.

KNAPP: Had been opposed to that?

KAPUR: Very strongly, he made statements like to the Board. In fact, you have--he fell ill, and then you told him--it’s there in the file--that, look, this is something that will not fly by the Board. You have to drop your opposition. And one of the reasons he dropped the opposition was then, even then as now, the U.N. was in trouble financially, and the U.S.--at Congress there were a number of proposals being mooted of Bank profits being used to fund the U.N.

KNAPP: I remember a little about that. Yeah, yeah.

LEWIS: That’s been proposed again recently.

KAPUR: That’s right. That was one of the reasons, in addition to, of course, the fact that the Board really was adamant about it. I mean, in general, that he changed minds. But that’s what I wrote in the finance piece, but I wonder if that . . .

KNAPP: I don’t honestly remember what Woods’ attitude was.

KAPUR: But this was very clear. He was very strongly opposed.

LEWIS: But in the quicker histories, less detailed, all we pick up is the big change from Black to Woods on this subject.

KNAPP: Yeah, yeah, right.

LEWIS: I want to ask you a little bit about autonomy. I don’t know how much that was a no-no word in the Bank. I think I can almost assert that it had to be an

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objective of Bank managers to get more degrees of freedom from their political masters as their owners. That was very visible in McNamara, but I think it’s almost human nature that every president would prefer to have some degree of it and be vetted less closely in what he was doing. Of course, it got changed dramatically by IDA. You start to pass out taxpayers’ money and you get a much more earnest inspection by your owners.

KNAPP: That’s right. That’s right.

LEWIS: But I just wonder . . .

KNAPP: In fact, let me say right there that I think that was the root of Black’s doubt about IDA. He had very serious doubts about IDA, and he was pretty strong on autonomy of the Bank, and those were related. I mean, yeah, he felt that if we were asking for or receiving taxpayer money, there would be much more danger, the way we put it. You said of “resisting their masters.” I mean, the way we would put it is political, politically inspired intervention.

LEWIS: Yeah, yeah, yeah.

KNAPP: I mean, in the early days when I came to the Bank and was working in Latin America, sometimes the State Department would kind of try to push me with respect to Latin American lending--and push Black, but, I mean, it also came down to my level. And we would always be--“very resentful” would be too strong a word, but certainly resisting. Now, that was partly because it was political intervention. I mean, they would be, you know--it would be some government that they were trying to support and they would say, “Can’t you help?” Political in that sense, but it was also political in the sense of being kind of a unilateral intervention in a multilateral institution, I mean, for whatever good cause. We said, “Well, you know, if you feel that way, bring your problem to the Board.”

So, we were--certainly already under Black there was a strong feeling of autonomy and a clear resistance to political intervention, all, of course, our position being fortified by the prescriptions in the Charter about, you know, ruling out political considerations.

LEWIS: Yeah, yeah. Maybe it’s--we put down here someplace, but maybe it’s a good time to ask you about the Board.

KNAPP: About which?

LEWIS: The Board. They--I mean, McCloy worked out this arrangement that left the Board in a comparatively passive position, reactive position.

KNAPP: Right, right.

LEWIS: And it’s often cited as being quite different than the Fund Board, for instance.

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KNAPP: That’s right. That’s right. And that tradition carried. I mean, you know, the provision that the--that only the President would present a loan proposal. I mean, I suppose that’s a fairly obvious one, but very important that the loans would be--proposal be made by the President, not by Board members.

The provision that a Board member should remain silent during consideration of a loan to his country, you know, I think that was established in that by McCloy. Anyway, it became established as a tradition under Black, and once or twice some director would, you know, even if he just asked to speak, Black would say--he’d rule him out of order before even hearing what he had to say. He might not if it’s intervening to support the loan, but rather just ask a question. I remember once or twice we had some slightly embarrassing situations there. But basically the Board member was not to be an advocate for his country. The theory was that--the theory, now--was that he was a member of an international board of directors charged with the administration of the Bank. That didn’t mean--that didn’t prevent him from shepherding, you know, if his team came for loan negotiations. That didn’t prevent him from shepherding them around or, I think, in some cases even participating in loan negotiations. So, anyway, you know, it was clear that Directors did have a dual role in representing their country at one end.

A fellow like Pieter Lieftinck took an extreme view. He said, “I’m here to be of some service to the Bank. The Bank’s paying my salary. It’s an international”--and he would just ignore the Dutch government. Of course, he’d been a former minister of finance in the Netherlands. He was a very great figure, and he could do it. But they tell me that even on appointing alternates and that kind of thing, that he was master of his own house.

LEWIS: Sounds like a Dutchman.

WEBB: Was he a complete exception in that way?

KNAPP: An extreme. He was an extreme. The others, all, the whole spectrum, there were some that tried to agitate on behalf of their clients. As I recall, particularly Latin Americans who would not only agitate, you know. Suppose it was a Peruvian. Well, he would not only be advocating loans to Peru but also, to some extent, loans to Latin America generally.

KAPUR: I was wondering . . .

KNAPP: And he would come to see me as head of the Latin America Department, and we’d go along introducing his people and joining in loan--the solicitation of loans.

KAPUR: [Luis] Machado was there.

KNAPP: Luis Machado, of course, very outstanding in this respect. Of course, he came from Cuba, so he didn’t have any home country most of the time.
WEBB: A gun for hire. I was wondering if there were others who were somewhat independent. If Lieftinck was extremely independent, Canadian, Australian, or some other, German?

KNAPP: Well, let’s see. Australia is pretty independent. Of course, they weren’t a borrowing country after the very first phase.

WEBB: That’s right.

KNAPP: Well, neither were the Dutch, of course. The British and the French usually had axes to grind on behalf of their--first their colonial territories and then later took their Commonwealth members, you know, in Africa, say, the French-speaking and the English-speaking countries. The French would often kind of swing in behind the French African countries to push.

WEBB: Was there ever an American ED who was a voice of his own to some degree?

KAPUR: It’s a rhetorical question.

WEBB: I mean, in a degree of prestige and . . .

LEWIS: Livy [Livingston T.] Merchant was.

KNAPP: Livy Merchant, I was about to say, came the closest, I think, to being kind of an independent, and I think that had something to do with the fact that he came out of the State Department, and he wasn’t going to be ordered around by the Treasury. I think Livy Merchant. I was about to suggest that. See, most of the people were Treasury people. Indeed, for quite a while it was the tradition that the assistant secretary of the Treasury for international affairs would be ex officio a director of the World Bank. Did you realize that?

LEWIS: I didn’t know that.

KAPUR: So the equivalent of Larry [Lawrence H.] Summers now.

KNAPP: Well, not Larry Summers now, but--no, no, Larry Summers never--he’s higher than that. It would be the assistant secretary for international affairs. Yeah, that was the practice for a while, and I must say we welcomed that because it meant you really were getting directly out of the horse’s mouth. If you had an ED who was just peddling something, a brief that he’d been given over in the Treasury, he’d be less clear about it, less amenable, perhaps, to change. He’d have to go back and consult. It was a good tradition, but it became just too time consuming.

LEWIS: Did these constraints--restraints on the Board, as pacifists, result in a decline in the quality, the stature of Board members that you sort of sensed or observed?

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KNAPP: Yeah, I think so. I think so. I think so. I think in the very early days the Bank had some pretty outstanding people as Board members. Yeah, I think it did. Well, I don’t have any particular cases to cite, but that makes sense, doesn’t it? I mean . .

LEWIS: Sure.

KNAPP: . . their function becomes less significant.

LEWIS: Yeah, yeah, yeah.

KNAPP: And maybe that was a part of the reason. I suggested the assistant secretary didn’t come anymore because it got too active, but another consideration probably was he found he was kind of wasting his time a bit. He could exercise more leverage elsewhere.

LEWIS: Yeah, yeah, yeah.

KAPUR: And in a way that--over the long run that sort of hindered the Bank in a way, the Bank’s management.

KNAPP: Sorry?

KAPUR: In the long run, that . .

KNAPP: Hindered the Bank management?

KAPUR: . . sort of came back to haunt the Bank.

KNAPP: Well, I think that’s an open question. I do think it would be desirable to raise the caliber of Board members, and it’s true that some of them have really been dummies, and they--you know, that makes them very difficult to deal with. The President, in the first place he can’t really elicit a response if the fellow isn’t very competent, in one way or the other.

But with all that, I would think a President of the Bank would--it’s a dilemma, but I would think that he wouldn’t want to encourage too strong representations lest he be handicapped in his mission.

LEWIS: Did you get the sense in the ‘80s that the Board had become more active and developed more of a mind of its own, particularly about structural adjustment and so on? I hear about the Board wanting to get into more substantive things, and want to have seminars on country programs and leading more in on the takeoff of, particularly adjustment lending.

KNAPP: Can I talk to you about seminars on country programs?

LEWIS: Sure.

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KNAPP: We thought this was a good idea, and to bring—not just to bring the Board in more, but to help establish a framework and a context within which loans would be presented, and so we made some proposals about this. This was under McNamara. We had been preparing these country program papers, and the Board learned about these country program papers, and, yet those papers were held hermetically sealed from the Board. And we thought that was a fine idea, and many Board members began picking it up. But then we got a rising tide of opposition from the borrowing countries, and they didn’t want to have called to account in a review of country program their, you know, macroeconomic policies. They had plenty of that in the Fund, and they didn’t want that in the Bank.

And I remember at the time talking to various Part II directors, trying to persuade them this would be a good idea, that would give the Board a better hold of their—handle on their country problems and what the requirements were and would encourage the Board to be more receptive to loan proposals. They wouldn’t have that. They said, “We don’t want this Board reviewing our economies and our policies.” And so it just withered, died.

KAPUR: Now, that was—I remember that . . .

KNAPP: Excuse me. What we did do at that point was we expanded somewhat the first sections of the President’s report on loans to kind of outline the background and what the lending program was and not so much now about their macroeconomic policies, but just to try to give a macro evaluation of their development and development needs and that sort of thing. So we slipped that in to our president’s reports, but—and then, of course, when you came to present that project proposal to the Board, that section of the Annual Report, of the . .

KAPUR: Staff appraisal report?

KNAPP: . . loan proposal gave directors an opportunity, if they wanted, to ask questions about it. But I guess the developing country people probably had persuaded our major country representatives on the Board just not to take advantage of that opportunity. Anyway, it just kind of withered.

KAPUR: Was it early ‘70s, mid or late ‘70s?

KNAPP: Sorry.

KAPUR: Do you remember when this happened?

KNAPP: Oh. Well, you know, I would guess this happened two or three years into the McNamara era.

KAPUR: Yeah, that’s what I sort of—I thought it was 1970-71.

KNAPP: 1970 or so, yeah.
KAPUR: And I think I saw in the files that one of the most vehement opposition was India.

LEWIS: Sounds like the Indians, yeah.

KAPUR: But then afterwards, after '87, through IDA, this has all come back.

WEBB: Was that Sen around in that time?

LEWIS: Yes. R. Sen.

KAPUR: Sen, yeah.

LEWIS: Sen was--in fact, he--I guess he was quite an active . . .

KNAPP: He was, yes, quite active.

LEWIS: He told me that he and Claude Isbister--Isbister happened to rent me a flat in Cambridge one summer--that they chatted up the Board to demand McNamara’s reappointment when they thought that the U.S. Nixon Administration was not going to--I think I tried that on McNamara. He didn’t recognize the story, but did you ever hear anything about that?

KNAPP: It raised a bit of a battle.

LEWIS: Yes, yeah, yeah, yeah.

KNAPP: About Claude. I knew Claude very well, yeah, but I couldn’t really confirm.

KAPUR: Did Mr. Woods sort of--did he confide he knew in the initial stages of pre-McNamara was under consideration for President? When did you first--when were you first aware that McNamara . . .

KNAPP: McNamara? Very late in the game.

KAPUR: So it had been going on?

KNAPP: Well, you know, it was associated with his resignation as secretary. Woods kept very close to his chest some talks that he had had with McNamara at that time.

WEBB: The resignation was in November?

KNAPP: Perhaps. And then there were a few months there before . . .

WEBB: And Woods . . .

KNAPP: Yeah.

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WEBB: . . and the story is that Woods put it to McNamara in April. There’s all that time--the preceding April.

KAPUR: April ’67.

KNAPP: No, no, no, no. Well, I don’t think so. The reason I don’t think so is that--I may be imagining this now, but I thought that Woods went over to the Pentagon to have lunch with McNamara once or more times.

LEWIS: Yeah. Do we have a piece of documentation on Woods that

WEBB: This is Shapley’s version, but I think I’ve seen it somewhere else.

LEWIS: I’ve seen it. I’ve just been reading. I lose track. This was a memorandum he wrote. He had this heart condition, and it was almost like a will. It was saying things that should be done in the event that he was not able to . .

KAPUR: Right.

LEWIS: . . discharge his duties on short notice. And at the very end of it, he said that there were three people he would recommend as a successor. McNamara is the third of the three. Do you remember that?

KAPUR: No, I remember this. I remember that . . .

LEWIS: I don’t know which--one was [Paul] Volcker? No. Anyway, there were three.

KAPUR: Right.

LEWIS: Oh. I know one was Orville Freeman, which surprised me. He was the secretary of agriculture then, a very aggressive--I had a hell of a time with him in India, but--and he was number two, and I blank on number one, but he didn’t really grade . .

KAPUR: Right.

LEWIS: . . he didn’t order them and say one, two, three. That was the sequence in which he wrote this rather remarkable . . .

KNAPP: Was number one a banker?

LEWIS: Yes, yes, yes. I think it was.

KNAPP: Probably would have been.

LEWIS: Yeah, it was a . .

KNAPP: But I don’t know who it was.

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LEWIS: It was a banker, and that’s probably why I don’t remember the name so well, but . . .

KAPUR: Now that might have been circulated to you, but . . .

LEWIS: It was ’67, that thing was brought up.

KAPUR: Yeah. It almost because I forgotten about this, and I thought it almost was because it was almost like what would happen, you know, what he wanted in case he was—he begins it by saying in case he was incapacitated.

LEWIS: He doesn’t say killed or died, but that was . . .

KAPUR: Or he was “incapacitated,” he uses a word like that. But who would he keep it with? I would have thought . . .

LEWIS: [inaudible] you as number two, but . . .

KAPUR: So, I thought you might have been aware of it, of that.

LEWIS: It might be something that he left to his family almost.

KAPUR: How did we find it in the files here?

LEWIS: I don’t know.

KNAPP: Well, I can tell you Woods never consulted me about it, although I was working very, very closely with him, and--and I can’t contribute.

LEWIS: No, that’s significant that you didn’t know.

Any--we think we know quite a bit about how different presidents were appointed, about the Woods having been booked for AID and then on the--[C. Estes] Kefauver, I guess--got the summons of the World Bank, and--well, let’s see. I guess those were the only two . . .

KAPUR: Right.

LEWIS: [inaudible]

KAPUR: You would have just left when the McNamara-Clausen transition occurred.

KNAPP: When McNamara . . .

LEWIS: Clausen. [all speaking at once]

KNAPP: Well, actually, I stayed for six months with Clausen.
KAPUR: I see. During . . .

KNAPP: Dave Sommers and I stayed to kind of help Clausen get into action, but . . .

KAPUR: Do you know how that choice was made?

KNAPP: Clausen?

KAPUR: Right.

KNAPP: Not really, no. I was not privy to that.

LEWIS: I think we know pretty much about that.

KNAPP: Yeah.

LEWIS: [inaudible] confirm that there was an intention of--no, I’m getting mixed up. There’s also the appointment of the chief economist at that same time, actually, almost the same time.

WEBB: You didn’t stay long enough.

KNAPP: Well, let me add for the sake of clarity that Dave and I, you know, stayed on in order to be available, but he didn’t use us much, so there wasn’t much point in staying on. We had a nice relationship, but he--I think he felt these McNamara holdovers were not anybody he was taking into his confidence.

WEBB: Woods also stayed on.

KNAPP: Who?

WEBB: Woods also stayed on a few months into McNamara’s . .

KNAPP: Did he? [all speaking at once]

WEBB: . . and apparently it was a kind of embarrassing situation.

KNAPP: You know, I kind of remember him being around to help, to be helpful and advise, but he didn’t stay on in any kind of obviously official capacity, and I don’t think it was anything full-time.

WEBB: But also, apparently, McNamara never called him, so it was rather embarrassing.

KNAPP: I see. Yeah.

KAPUR: I think few presidents have gone back to call a previous one except maybe Wolfensohn with McNamara.
LEWIS: Let me change the subject, talk about writing and language. I’m not the first to let spinning become a very heavy sort of impression of mine, that this is an institution that is just ridden by language, by writing. There are various fascinating numbers coming to hand that there are something like 100,000 pages of documentation per capita annually. 100,000 pages of documentation per capita!

KAPUR: A hundred thousand of these pages.

KNAPP: Per capita of Bank staff?

LEWIS: Yeah, Bank staff.

KNAPP: An output.

LEWIS: And, you know, it does produce a hell of a lot of copy . . .

KNAPP: Sure.

LEWIS: . . . and I don’t have any good basis for comparison, but my two encounters with the U.S. government suggest—I never heard an agency that turns out quite this much language. And then I get thinking about the quantities per inscription, that these are pretty long papers on average. When I was on the staff of the Council of Economic Advisers, we had a chairman who learned that the trick was to write a memorandum to the President of a page and a half, and State’s stuff never got read because it was eight pages long. And this is certainly not a guideline that’s penetrated here. I mean, these things are very long, and they’re—an awful lot of the transaction is done in terms of paper.

KNAPP: Let me just make one comment that occurs to me immediately that I think was the origin of an immense amount of consumption of paper that would have been counted in your summary there, re economic reports or project reports, and probably particularly project reports, went through several levels of review. I mean, a fellow had a junior officer in the power department of the Bank would produce a report, and then that report would be reproduced and circulated. But his boss, say the head of the power department, would then [inaudible] and make changes, go back, have a whole new rerun, and then the director of the department of the--what we used to call TOD [Technical Operations Department] or DOT . . .

KAPUR: TOD.

KNAPP: TOD. Well, anyway, when you had that, levels of hierarchy, and you had such reliance on a piece of paper which was finally, mind you, going to the Board, and therefore it was—it carried great sort of importance and weight, and you had all these revisions at every level, and I am frank to say I revised some papers that came up to my desk before they went to the Board. And when you do that, you--well, all I’m saying is there’s an immense amount of duplication, and when you add those all together in a cumulative total, it might create a misleading impression. There was only one final document, but behind it lay all these drafts.
LEWIS: Sure. Did you have a sense that meetings were more or less frequent than they were in your U.S. government experience and that they were in any way different in their style? Let me give you my own experience, a sort of sharp difference.

WEBB: John, I’m sorry to interrupt, could you just hold off a little bit on the literary thing because . . .

LEWIS: Oh, yes, please. This is sort of the same, but go ahead.

WEBB: Is it? [inaudible]

LEWIS: Yeah, I’ll come back to you. It’s just that in my experience in AID, for example, was that an awful lot of decisions were done by meetings, and many of them pretty informal and not prepared with lots of documentation but where people got together and thrashed out an issue and finally a decision was made. And that would be recorded on paper somehow or another, but a lot of the transactions that the staff were engaged in were oral.

Went to OECD [Organisation for Economic Co-operation and Development]. I couldn’t believe it. Here we had very high paid staff, and they wrote great documents, but they never met with one another.

[End Tape 1, Side A]
[Begin Tape 1, Side B]

LEWIS: [inaudible] in Paris, but the staff of OECD sat around the periphery, couldn’t say boo. And you couldn’t make a bunch of American bureaucrats behave that way for very long. Some of them didn’t make the transition, but--and I don’t really have a feel--I’ve never worked here except as a kind of kibitzer--as to what extent there’s . . .

KNAPP: Well, I think, John, that meetings were more complex or frequent and complex in the Bank than my experience in the State Department. And I was just thinking why was that, and I think it’s--one clear reason is that in the State Department you had a vertical line of authority, but people at the different levels of authority had pretty much the same kind of competence and experience and métier. But when in the Bank we had a meeting on a loan proposal, we would have not only the kind of conventional loan people or loan officers and the country economist, but we’d have some technical experts and maybe more than one branch of technical, you know, if it was a--well, if it was a highway project, obviously they have the highway fellows and the power fellows, and then we’d have lawyers. And in my work in the State Department, the State Department had a legal office all right, but they never bothered me much and I never bothered them much. I don’t know that they were concerned with. But here the lawyers are always on top of things, and we were talking about loan agreements and clauses in loan agreements and how they should be phrased. So, I think the fact that there was this kind of multi--how you call it--multi-vocational participation . .

LEWIS: Yeah.

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KNAPP: . . meant bigger meetings, more complex meetings, more points of view.

KAPUR: You know, I just yesterday, actually, to my coincidence, I was given this sort of exchange in the—i guess it was the TOD in ’71, ’70-’71, when [Bernard] Chadenet was the head and Warren Baum was his deputy.

KNAPP: Who was that now, Chadenet?

KAPUR: Right.

KNAPP: [Siem]Alderwereld, I guess, had been promoted to vice president.

KAPUR: Right. I think he was Finance then.

KNAPP: Yeah.

KAPUR: And this related to how decisions were taken and the closeness with which the Projects Department wanted to hold information on how decisions were made.

And there’s a rather amazing circulation to all directors by Warren Baum in ’71. Basically he instructs them, you know, on a need--a project--not to give information to staff. I mean, it’s really quite amazing, I mean, if you read it now, it’s--you know, it’s basically there that . . .

Now, since this whole thing involved Ben [Benjamin B.] King, he was the economic advisor, he quit—that’s what he said—as a result of this because he felt that the Projects Department really had a thing of not explaining very well how--in a sense that when they met, they would only give the final ratified decision. I mean, the final . . .

[Inaudible] [all speaking at once]

KAPUR: But they would never say the other side which in their internal debates, so that when you met, you would never know the cons. You’d only know what their point of view was as one point of view, and they would refuse to . . .

KNAPP: A Baum monolith. Well, I was aware of some of that, but I’m learning more about Warren Baum. The last time we talked some, you were trying out on me the idea that after the reorganization that . .

KAPUR: After ’52.

KNAPP: . . that Warren Baum was saying I’d conferred such great powers on the projects departments because they could determine the order of work and priorities of work and so on, and I said that was a bunch of junk and that I sat on top of that as the senior vice president, and Warren couldn’t artificially delay the consideration of projects by just determining the priorities of his work. Well, anyway . . .

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KAPUR: The reason I just want--because more recently, when one talks to people, one has a very distinct sense that meetings in the Bank are not usually ratify decisions rather than go through a consensus on what a decision ought to be. I’m talking of projects related, you know, not . . .

KNAPP: You’re talking of projects.

KAPUR: That’s right. And it sort of leads to--a lot of people say, “Look, there’s hardly any point of going. The director usually has made up his or her mind,” and so in a sense it’s more to ratify rather than go around the room, who says what, and therefore help to come to decisions.

KNAPP: Well, I don’t know. I wouldn’t accept that with respect to the meetings that I conducted—Staff--the Loan Committee meetings. I didn’t have time for that. Meetings were where you decided issues, and papers were put up indicating the issues that needed to be decided or if they came to me or I, upon reading the papers before the meeting, had my list of things that ought to be reviewed. No, I don’t understand. Indeed, everybody was pretty damn busy. It would be a terrible waste of time to have meetings just to ratify, if I understand your wording in saying “just to ratify.” I mean, that sounds like just a formality. As a matter of fact, if we had a loan proposal coming up where no issues had arisen, we often would just not have a meeting on it.

KAPUR: Now, but to an extent wasn’t that the role of the Board? The Board met to ratify.

KNAPP: Excuse me mow, to what extent?

KAPUR: To an extent, after all, that was the role of the Board, the Board meetings.

KNAPP: The Board to ratify.

KAPUR: Right. The Board decides.

KNAPP: Oh, well, now that’s another question about the Board.

KAPUR: I mean, it was a fait accompli.

KNAPP: Oh, sure. I mean, let’s face the fact--and the Board hates to face this fact, I think--that they have never, as far as I know, never in my year and as far as I know never in Ernie Stern’s time has the Board rejected a loan proposal. And, of course, on the face of it, that made them look like a terrible rubber stamp, if I can use that word as a stronger version of “ratify.”

And the defense of that which--you know, sometimes when I would be talking to directors informally, they would say, “For God sake, we’ve just become a total rubber stamp. Things come to the Board. We approve them.” And my defense, which may seem to you a little bit invented but I meant it, was that, well, it was awkward for the Board to change things which had been completely and fully negotiated with a borrowing government, and it would sort of expose differences within the Bank to the

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borrower, or it would require renegotiation of the loan with the borrower, which would be, I think, obviously a little awkward. So there were all those reasons why at the Board level it was very difficult to change the terms, the amount, the terms and conditions of projects. But I would say—and I hope—I think I really confused a few people that nonetheless their comments and criticisms on a loan’s proposal would have a very important effect: namely, on future loans. And if the Board found that in a particular loan we had gone too far in requiring reports or appointments or if we had imposed conditions that were excessive, that we would very much take that Board view into account on the next loan that came along of a similar character.

LEWIS: Sounds . . .

WEBB: It’s a bit misleading in any case.

LEWIS: You don’t remember that you have an option to come in with some language questions.

WEBB: Yeah. But just following up on this, there’s an awful lot of dealing with the Board that’s outside the Board room meetings.

KNAPP: Sure.

WEBB: And so that the Board is having an influence . .

KNAPP: Sure.

WEBB: . . through comments and preferences and so on.

KNAPP: Well, you see, if we’re talking about a loan, for projects and loans the Board member—it would depend a little, of course, on the Board member and the constituency and so on, but if a country seeking a loan had a Board member or an alternate Board member of the same nationality, he would be participating fairly actively in the negotiations. I said, I referred to that earlier; and come to think of it, even his participation in negotiations was a little bit against the rules and the rules as we thought they were, but it very often happened, so he would have a very considerable input. That’s on loan negotiations.

But quite aside from that, and especially after we created the area departments, which was, of course, very, very early in the game, the director of the area department or his deputy would have a lot of talk on the side with his director about loans. He would also—he would also—he’d talked at the McNamara stage—you see, McNamara, let’s face it, is a very manipulative kind of guy, and if he had a policy issue on which he wanted to get a vote, he’d get everybody to work to work on the directors. So, the obvious people who would be close to the directors would be the heads of the area departments, and they would be delegated by McNamara to quote “educate” unquote the directors on a policy issue.

LEWIS: Certainly the mark of an effective executive very often. We had a president at Princeton . .

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KNAPP: Don’t use my word “manipulate” as a quote.

LEWIS: . . . he was just so very good at going around--this was when he was coming up the administration--he always got every issue thoroughly pre-cooked so that when it came to the formal decision, it was a minor event. And I’ve seen that happen in the aid business also, that really the really good operators very often . . .

KAPUR: I understand that McNamara used to sort of weekly--had these sort of weekly lunches with a few members of the Board on one to one.

KNAPP: Yes. Yes, that’s right.

KAPUR: So, in that sense . . .

KNAPP: I think, for example, he would meet with the Latinos as a group, that kind of thing.

KAPUR: Uh-huh. And that in that sense, people have argued that he was--he cultivated the Board, perhaps, as no other Bank president, at least since.

KNAPP: I think that’s true, yeah, because Black and Woods I can’t think would do that very much.

KAPUR: Right. And that as a result, the Board members felt that they had a greater sense of--I don’t know, using a newfangled word--“ownership.”

KNAPP: I think from some casual comments that McNamara made once in a while, I have the impression that he was applying some experience that he’d applied to dealing with the Senate and House Appropriations Committees or whatever other committees they had concerned with Pentagon.

KAPUR: Yeah.

KNAPP: He was accustomed in that sense to working, you know, manipulating, massaging, getting to the weak points, shall we say, of the members of the committees.

WEBB: I’ve seen that said of him more than once, that he was generally all decided when he held staff meetings, that in the case of the meetings that he held, as distinct from other presidents and other vice presidents. But in the particular case of McNamara, he did tend to use meetings, let’s say more to ratify than to truly open the-discuss alternatives, particularly if they were large-ish, a formal group rather than just one with a couple of people that he’s exchanging thoughts with.

KAPUR: And that’s also said of the President’s Council as a senior management thing--you know, to what extent was it a collegiate consensus thing--not collegiate, of course, but whether it really was more of a--it was essentially for ratifying what McNamara already made up his mind, or did it really . . .

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KNAPP: Well, you see, that “ratify.” I’m not just quite sure what that means in your mind. “Collegiate” is at one totally opposite extreme, it seems to me, and McNamara certainly was not. He had the President’s Council, you see, which would be a group of about eight or ten, and there was certainly nothing collegiate about that if collegiate means looking for a group decision or taking a vote or anything like that. He was dominating the whole thing.

But also, I think in those President’s Council meetings he wanted and he got a lot of opinions and sometimes very differing opinions, and I think they had an influence on his decisions, you see. He did want a very active and open, frank discussion, and I think the members of the President’s Council generally would tell you that they felt he listened to them, he was influenced by them, and so on. So that’s not exactly ratification.

LEWIS: Yeah. It’s a--I think the U.S. President’s Cabinet is a very close analogy, that there you got a very clear number one, but certainly influenced by.

KNAPP: Influenced, sure.

KAPUR: Besides yourself, who else do you see in the President’s Council who influenced McNamara?

KNAPP: McNamara? Well, Hollis Chenery, I suppose, first of all. Hollis was very influential on the broad issues.

KAPUR: How would--I can’t really understand Cargill’s role.

KNAPP: Who is that?

LEWIS: Cargill, Peter.

KNAPP: No, no. He--could I speak off the record?

LEWIS: Sure.

[Interruption]

WEBB: By the contrast, or by Ernie’s farewell remarks last year, which were a very strong dismissal of poverty as an immediate objective for the Bank, he said something to the effect, “I’m convinced that the only”--he used the word “only”--“the only solution to poverty is growth.” I haven’t taken it up with him; I have to do that. I just wondered how you saw that because he was Hollis’ right-hand man for a while and then he became so involved with McNamara in, for instance, writing the Nairobi speech, but so many other pieces of all that tremendous campaign. His memos are just full of statements that fully endorse the conviction that you really--the Bank really could find something that would go one better than just growth, you know, sure, growth, but we can also do something else.

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KNAPP: Redistribution.

WEBB: He used the term “social dimension” once.

KNAPP: Wasn’t Hollis . . .

LEWIS: Redistribution with growth. That was the sort of bible of the . . .

KNAPP: Yeah, yeah. Well, I’m really very--kind of surprised at that because, I mean, if you interpreted his words--well, I’m surprised that he said anything that anybody would feel was sort of downplaying the importance of the poverty objective. But I think my most telling remark on that is that I--Ernie and I sat together at the meeting, and the--Wolfensohn gave his speech, and Camdessus gave most of his speech without ever applause from the audience to interrupt the speech. And the only time there was ever any applause to interrupt the speech was when Camdessus made a rather McNamara comment about how can we--how can we justify the existence of this poverty in the world? And everybody burst into applause, including Ernie. So, I offer that as anecdotal evidence of his interest in poverty problems.

WEBB: I’ll ask him. I won’t quote you, but I’ll say someone saw him.

KNAPP: Well, talk to him about it because I have an idea that what he will say to you is that you misinterpreted or that he didn’t quite make clear his point or something.

LEWIS: This really shouldn’t take up our time this afternoon, but I’ve known Ernie longer than any of you, and I think I can understand this, that he is a tremendous lieutenant, and he can take Bob McNamara’s themes and really charge with them and get himself completely into it. But he himself--and he’s sort of this absolutely poignant--it’s what he feels and thinks--he’s a very straight growth person. He’s a very straight efficiency, expansion, sort of first-things-first kind of guy, and he can get very annoyed sometimes by the sort of Mahbubs [Mahbub ul-Haq] and so on who, you know, keep all of the balloons up in the air. And I think as far as McNamara is concerned, he probably was really very ill at ease through the whole ten years with McNamara’s insistence that you could--there’s no trade-off, that you could--you could do the direct poverty without any cost to growth or to project efficiency or whatnot. And, you know, Ernie’s a very sensible fellow. He knew that isn’t quite so, but . . .

KNAPP: Well, I bow to you on that. You would know better than I.

LEWIS: I think that’s it. I don’t--I think it’s odd that he’s put that in his farewell speech, and it’s worth pressing him on it.

KAPUR: I actually do--I would sort of because--I was sort of hanging around when he made this speech on the 13th floor, and I was very moved, I must say.

KNAPP: Oh, yes. Yeah.

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KAPUR: I thought he had . .

LEWIS: I would have been totally moved.

KAPUR: . . he had incredible passion about what he believed in larger purposes of this institution in the best sense of what this institution is. You know, one might disagree about means in particular, and so I guess if you had heard him in the tone and the way he said it maybe, although when you read it in writing, then you think is much more . .

WEBB: But it sounds as though in that case his true beliefs were coming out.

KAPUR: That’s perhaps true, his core beliefs.

LEWIS: Yeah. I think that’s about right.

KAPUR: But I think at the same time the ends--I think he’s that--I’m--more than I think many other Bank staff, the ends of the institution, which is that to remove poverty, I think he does believe in that with passion.

WEBB: Everybody believes in that.

KAPUR: No, not with passion.

WEBB: Maybe not with passion.

KAPUR: But I think that at least . . .

WEBB: But everybody believes in that, that through growth you bring down poverty.

KAPUR: Yeah, but in a sense--no, but the larger objectives of this institution, you know, that is the end, the target. I think Ernie believes in that quite, quite passionately, but I don’t know. I had a sense in the talk, although I think about the means to that end.

LEWIS: Did you ask your language question?

WEBB: No. This is not a Warren Committee. If you will allow me to--it’s a little bit--maybe it’s a bit almost metaphysical, but a reflection on this Bank. This business about the literary nature always struck me, too. If you’re coming from a government or you’re comparing to anything that’s government, then it’s less surprising, but there’s probably no bank in the world that comes anywhere near even 10 % of the literary output that this bank has, which is the way . . .

KNAPP: Literary output? What do you mean by that?

WEBB: Written.
KNAPP: Just written pages?

WEBB: Yeah.

WEBB: And it always seemed to me that this is an indication really of the extent to which the Bank is more than a bank because what people are writing about is not really the financial transaction per se, which would be settled in a few computer entries in a normal bank or some conversations, one or two pieces of paper. But here is all this other business going on, sort of that has to do with the quality of the project, way beyond what a normal bank would be looking at. And with the influence that you are interested in that goes along with the--I just wondered whether you’d ever thought about that. It seems to me that all the writing that’s going on is about those kinds of things, and it’s almost like a measure of the extent . . .

KAPUR: Could I add a point? I guess--perhaps I look upon it as less a charity activity than Richard does. I think its output at times extends to worldwide diarrhea. It is not just in the Bank’s internal, but every loan, you see, the number of studies that the borrower is required to do. You know, countries with a population of two million are required to do, you know, 20 studies, 40 studies a year. If you look at the number of studies being done year after year after year, it’s just a phenomenal thing, you know, more consultants, more studies. And at a point I wonder at the margin if talk does not and studies do not substitute for action.

Also, the sheer volume of internal studies means--which, of course, means that at some point, as you said, these are reviewed in layers, the Bank perforce over time became obsessively sort of naval gazing because you’re basically only spending all your time reading internally produced material, you know, by definition. If you’re reading ten internal reports a day to review as opposed to two, you have little time to read material produced outside. And I wonder--I mean, that’s the other side as, you know, as [inaudible] was saying. I wonder how you . . .

KNAPP: Well, let me see now. There are several different kinds of studies and kinds of papers. I commented about project reports, which with their reiteration at different levels of responsibility produce a tremendous amount of paper. I think the answer to that basically is to reduce the levels at which that reiteration takes place. I would defend the process, which is designed to produce the most informative and persuasive report to the Board.

Now, on economic reports . . .

WEBB: Burke, I’m sorry, if I can just comment there, we were just talking about the Board not really deciding anything.

KNAPP: Yeah, I know, but--well, if you want to just pursue that a minute, the project reports serve a lot of other purposes, too, and--first of all, for the country; second, for the project executing agent. These project reports are a kind of a bible, you see, to them.
But to come back to you for a minute, I see the inconsistency, but I guess my answer would be that if we didn’t produce very good and persuasive reports, we might have a revolution in the Board, and they would really come at us hard and want to participate in the--much more in the decisions.

WEBB: Preventive.

KNAPP: But on other types of reports I used to get a bit restive about the length of economic reports and all the annexed material and so on. But on the whole I would defend it. Gee, I think we--I think we had a--we had and still have a unique capacity to produce these economic reports. And, again, they are great guidance to the countries concerned, not to mention the academic and business communities. I think I’m kind of on the defensive side regarding the output of paper.

WEBB: I wasn’t, myself. This again . . .

KNAPP: Oh, that was the other aspect about us requiring studies, consultant studies, et cetera, et cetera.

KAPUR: It was just awful, I was saying, to a certain extent [inaudible].

KNAPP: Well, we’d have to argue that, I think, when getting down to specifics, which you can’t do now. I’d again be on the defensive about . . .

LEWIS: You don’t think . . .

KNAPP: . . . Bank project and sector reports.

LEWIS: . . . you don’t think there’s too much pulling out the carrots to see how they’re doing? When you look at structural adjustment, how many studies of that of global, regional? You know, the central economists do three in a row and then OED has done three and there’s a huge amount of Africa and . . .

KNAPP: Oh, these are reviews of structural adjustment.

LEWIS: Reviews, yeah, yeah, yeah. There’s a tremendous amount of examining the track record, self-examination of the track record. It almost seems like an institution that’s very insecure, that it has to defend itself at every turn, at least that’s . . .

KAPUR: Also, in some of these countries the cost of the reports in industry, say, in some of the small countries is about 10 % of the country’s industrial output. I mean, you know, we’ve got to be somewhat serious, if you go to Lesotho and spend a million bucks about an industry sector report which takes three years. In Lesotho the industrial output is rather limited, you know, I mean. And, of course, five years later there’s another report. Is that sort of valued? And I wonder if it’s because the Bank has had over time had less and less sort of people who came from outside who’ve been involved in business in the outside world, sort of . . .

KNAPP: You think that’s true?

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KAPUR: I think so. I think most--I mean . . .

KNAPP: I’m a little surprised at that. I thought there was certainly enough rotation, expansion and rotation . . .

LEWIS: Turnover is very low. Turnover is very low--turnover very low. Not many people leave, really, and, of course, you have more now like YPs [young professionals] trained up from the beginning all in the institution, very little field service.

KAPUR: And a lot more Ph.D. economists who, just by nature of their background and training, like studies and analysis. You know, that’s their sort of genre, which they’re . . .

WEBB: The YP presence is particularly at the executive levels, isn’t it?

KAPUR: At the management.

WEBB: Division chiefs up.

LEWIS: Management, yes.

WEBB: Because in proportion to total Bank staff, it’s not that large.

KAPUR: But it’s more than half of management.

WEBB: Yeah, half of management, division chiefs up, whereas in total Bank, it could be less than 20 %, 15 %.

KAPUR: Less than 15 for sure, in professional staff.

LEWIS: Yeah. Are you worried about that YP phenomenon? It started in your time in 1960 . . .

KNAPP: Sure. Worried about how far they have come to . . .

LEWIS: Yeah.

KNAPP: No, no. I think it served its purpose to develop a cadre of people. I think the record has been pretty good. They’ve been a pretty high class, high caliber group of people.

LEWIS: Let me ask a very, very soft, big question about--how do you feel about the institution overall? Is it as good in some sense as it was in your time? Is it, as a lot of the critics say, in some kind of decline or has it lost its bearings or sense of direction?
KAPUR: There’s a word that someone used called “mystique.” And if you read the media, how it viewed the Bank in the ‘50s, ‘60s, and even into the ‘70s, I think it had this—whatever; the word “mystique” . . .

KNAPP: The word “esprit”?


KAPUR: That clearly, I don’t think so, that there’s any doubt.

KNAPP: John, gentlemen, I--you know, since my time, and I have trouble with that because I’m just really not close enough.

LEWIS: Yeah, I understand.

KNAPP: I mean I hear about staff malaise, but I don’t know exactly what that means and have little basis for judging how justifiable that malaise is. I--I think it has been a great institution in the world, and up to the time I left, I still thought it was great, and I’m not going to run it down now.

LEWIS: That’s fair enough.

KNAPP: I think it still has a very important mission. Maybe Wolfensohn will rediscover the mission better than some of the presidents we’ve had for the last decade.

LEWIS: Okay, fair enough.

Let me ask you quite a--sort of a micro question, I guess, a structural question, but it happened and it goes to one of my own prejudices. I don’t know if it really applies to here or not. But when I was in the U.S. Government, I could observe, I thought, that there were sort of two styles of top management, and one just was absolutely orthodox. You had a pyramidal hierarchy. You had layers and people that worked their way there, and they had jobs to do, and they reported upward and got messages downward. And then you had the kind of chief executive or ambassador or secretary of a department who made great additional use or supplemental use of what the Indians call PAs, personal aides. And these were people, very bright, they probably had as fine education as anybody in the place, they tended to be young, and they were picked for their sort of aggressive personality or some kind of personality traits, and they were given a license to roam up and down the hierarchy, jump one of those, carry messages, poach, sort of be a nuisance. They were a secondary line of information to the boss. They were very influential. Chet [Chester B.] Bowles was one who went to extremes on this. And the people in the hierarchy hated it by and large.

KNAPP: Well, I can understand that. I mean, I think that’s very disruptive for the organization the way you describe it.

LEWIS: Right.
LEWIS: Was that ever an issue?

KNAPP: No, that doesn’t toe the line.

LEWIS: Nothing like that going on here?

WEBB: McNamara’s personal assistants were not like that.

KNAPP: Oh, no, no. They never did that kind of--but I’ll tell you, it reminds me of a little story that you--you remember Charlie Hitch?

LEWIS: Yes.

KNAPP: Did you know Charlie?

LEWIS: I knew him a little, yes.

KNAPP: You know, he was a brain truster in the Pentagon. Then he became the--he was in the Rand Corporation.

LEWIS: Yeah, and he was president of UCC, University of California.

KNAPP: Resources for the Future--that’s right. And then he went University of California, and then he retired. He was a great friend of mine, and we were at Oxford together. And he, having worked intimately with McNamara--when I learned of McNamara’s appointment, one of the very first things I did was get on the phone to Charlie to say what’s it like working for this guy, and he gave me a lot of very useful advice, like how to prepare a table. He says, “The totals go on the right, not on the left, and the titles go at the top, not at the bottom,” all that type of thing, at that level. I forget the details of--but he also said this to me, he said, you know, “He is--he’s a sponge for information, and you better mind your P’s and Q’s because if you can’t answer his questions, he’ll go below until he gets it.”

But I never found that I was ever particularly troubled with that when I got in my experience with McNamara, not that I could answer all his questions, but I never--I had no complaints.

WEBB: One of the things that strikes me . . .

KNAPP: By the way, he died just recently.

LEWIS: Yes, I saw his obit.

WEBB: From many things that one reads about McNamara, he comes across as a very--correct in his dealings with people, in a bit of a contrast to other aspects of him, but that he was respectful, well mannered in dealings with people. When we talked to him three, four times, we could never get anywhere near some criticism or less than favorable comment about anyone that he ever worked with. For instance . . .
LEWIS: He didn’t write any testimonies to others that he did to you, though.

KNAPP: Pardon me?

LEWIS: He wrote the best testimonial to you.

KNAPP: Oh, he did?

LEWIS: Yeah.

KNAPP: He wrote it, you say?

LEWIS: Oh, I think he wrote it.

KNAPP: You mean when I retired?

LEWIS: Yeah, yeah, yeah.

KNAPP: It was a jewel, wasn’t it? Made me very embarrassed. It’s more than I deserve.

Well, let me tell you an anecdote about that because, yes, I say yes to what you’re saying. Despite his, you know, reputation of being so mechanical and all that, he has a very, very human side, and that manifested itself, among other things, in being very considerate in personal relationships. We--he came to the Bank I think on the first of April, and it may have been the fifteenth of April when Martin Luther King was assassinated and they had the riots. And on that afternoon and evening--he riots broke out about 5:00, something like that--and it was real trouble, and they declared a curfew and all that.

Well, we were in a meeting with McNamara, half a dozen of us, kind of reviewing the lending program and that kind of thing, and his secretary came in and brought a message that the riots had started and they declared a curfew and asked everybody to go home. But we were in a kind of a critical stage of this review, and Bob said, “Well, okay, keep an eye on the situation for us, but I think we’ll just go ahead.” So we did go ahead for another hour or so, and by the time I got out, the streets were pretty much all clear, which was great. I could drive home without any traffic, and I was kind of glad we’d been delayed.

But just to go back a minute, the secretary had also come in with a message that my wife had telephoned and asked about what was going on and when was I going to get home and so on, and I guess McNamara must have been handed the two messages because he was aware of that message from my wife. So the next morning, quarter to eight or so in the morning, the phone rings, and we’re just getting up. He wants to speak to my wife. He apologizes to my wife about having kept this meeting going, so he’s having worried her, and that made my wife a friend for life.

KAPUR: After that he could keep you for as long as he wanted.

J. Burke Knapp
October 22, 1990; September 26, 1991; September 24 and 25, 1992; October 10, 1995 - Verbatim
KNAPP: Yeah.

WEBB: That’s a nice story.

LEWIS: That’s very nice.

KNAPP: Well, why don’t we get on. I can do another half an hour if you want. I’d like to get away by sometime after four.

LEWIS: Okay. Very good.

WEBB: Very generous. Let me throw at something completely . . .

KNAPP: I’ll tell you, let me just say something maybe. Have you got a secretary functioning out here?

LEWIS: Yes, yes, yes.

KNAPP: No, not to do this.

[Interruption]

LEWIS: A few things on that.

KNAPP: Can I take this?

LEWIS: Sure.

KNAPP: I’ll take this with me and study it. If I have suggestions I’ll--on the subjects that are there.

LEWIS: I think we’ve touched pretty well on what I had in mind, but I was going to ask you whether you thought if you had a series or sections chronologically and one was pre-Black and then you had after Woods, McNamara, and post-McNamara, is Woods--does he warrant a section all by himself?

KNAPP: Oh, I think so. Oh, I think it would be worth it.

LEWIS: Yeah, I think so.

KNAPP: And you’ve got a book about Woods.

LEWIS: Yes, that’s right.

WEBB: I got a letter from Robert Oliver making a few comments to the chapter that I had written on it. He said--he was trying to be nice, but it was clear that he--he wasn’t quite happy with the . . .

[End of Tape 1, Side B]
[End of Session 5]
[End of Interview]