THE WORLD BANK GROUP

ORAL HISTORY PROGRAM

Transcript of interview with

WILFRIED P. THALWITZ

January 22, February 12 and 28, 1996
Washington, D.C.

Interview by: Jochen Kraske
WILFRIED THALWITZ
Session 1
January 22, 1996
Washington, D.C.

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

THALWITZ: I'm Wilfried Thalwitz, retired vice president of the World Bank.

KRASKE: Welcome, Wilfried, and thanks for participating in our oral history program. I thought that we might want to start first by asking you about your background and your education. You are from Germany, and I suppose you have had most of your schooling in Germany.

THALWITZ: Yes. I'm from the north of Bavaria, where I finished my high school. I had two terms in Frankfurt University, studying economics, but very early in my studies I left Frankfurt to go to Berlin. And I did my studies in economics, mostly in Berlin, finishing with the Diploma in Economics, in 1957 in Berlin.

KRASKE: Did you at that time focus on developmental issues at all?

THALWITZ: Yes, I started getting interested in development economics by about 1955. I had a professor there by the name of [Karl C.] Thalheim, who was one of the few professors in Germany reading economic policy, and seminars and research in the area of economic development. I was one of his students, and in fact, took it as one of the topics for my graduation.

KRASKE: Then, you went to India?

THALWITZ: Yes.

KRASKE: How did that come about, and what were you trying to do in India?

THALWITZ: Well, during that period, '55 - '57, where I'd begun to read about the economics of development, it became very obvious to me that one couldn't do all of this without any sense of the reality of a developing country itself. There is much romanticism in Germany associated with places like India. I read Siddharta, [Rabindranath] Tagore, and [Friedrich Max] Mueller's translations of Indian literature, so there was a combination of literary and cultural interests which attracted me to India. I thought I would have an opportunity of seeing a country which interested me culturally at the beginning of its economic development.

Soon after my exam, I applied for a research scholarship, which took a while to go through. In the meantime, I taught in Berlin in a school for aspiring members of the Berlin administration. It was a trade school, and I enjoyed that very much. And finally in 1958, almost a year and four months after my exams in Berlin, I made my way to India.
KRASKE: Right. Did you have a particular project, then, that you were trying to complete, some study or some paper?

THALWITZ: Yeah. I had a project, which dealt mainly with a subject that today I would consider an IMF [International Monetary Fund] subject. It dealt with the interaction between the short-term monetary policy of a developing country and what today one would call the structural aspects; at the time, we called it economic policy, in the more general sense. From the beginning, I didn't want to be exclusively a student, at Harvard, LSE [London School of Economics] or in Berlin. I wanted that time in India to be as varied as I could make it, and I achieved that. I worked with Professor Brahman at Bombay University and an American professor by the name of Whittlesee on economic and monetary questions.

I did some work in the Reserve Bank of India where I was a permanent guest on agriculture credit. I was there when the agriculture credit system of India was invented, and I did some research work on it in Rajasthan.

I also worked for industry on a project where Siemens wanted to make a foray into fertilizer investment in India which never succeeded. It went so far that I criss-crossed the country in my car to take soil samples, which then were taken to the research office in Bombay and were meant to give a basis for the future formulations of fertilizers. It was a very interesting thing.

I snapped up the chance, when I had an invitation from the brother of the king of Nepal, who asked me to come to Nepal and help a little with the establishment of a planning commission there under the first democratic government, and I spent about four months in Nepal doing that. So all together, I gained a very broad view of the developmental problems of the sub-continent under the guise of a scholarship, but with a lot of private contacts, private research, and work in industry and agricultural credit.

KRASKE: These two professors that you mentioned, were they at the university in Bombay?

THALWITZ: They were at the university in Bombay. Brahman was an interesting man. He's still alive. There were others, Dantwallah. V.K.R.V. Rao was in Delhi. We worked together as advisers on the third five-year plan, so occasionally I would have to show up in Delhi together with Dantwallah. This is all a long time ago.

The third five-year plan, in fact, was a very interesting plan, because for the first time the planners did recognize that India had an agriculture, whereas the second five-year plan was an almost exclusively industry-oriented plan, in line with the paradigm of the times that only full-time and full-scale industrialization gets you out of the trap of under-development. We traced the loss of foreign exchange; that was very interesting. India had been led into independence with a very large nest egg. India had something, if I can remember the figures right, they had something like seventeen billion shilling, they called it at the time. But that all went poof during the first and the second five-year plan, and by the time we got to the third five-year plan, there was already in India a very hefty foreign exchange crisis, which for a long time never went away.
KRASKE: You were not, then, in touch with the German universities or the German establishment, so this was something that you did solely on your own?

THALWITZ: Yes. I was on my own.

KRASKE: How did you meet the brother of the king of Nepal?

THALWITZ: Oh, that's a very private story. The fact is that I took a car from Germany to Bombay, and it took me seven weeks through Turkey and Iran, before the World Bank built roads in these countries. You had a carnet which allowed you tax-free import of a car for one year in India. It was the German Automobile Club who guaranteed your good behavior with respect to customs, import licenses and all the rest. And every country you went into, you had a stamp in your carnet, which was a big customs book. When you left the country, you had an out stamp. If it was legal to sell the car, you paid the duty and again it became legal that way, and then you had to send the carnet complete with entry and exit stamps back to the German Automobile Club and then it was released from its guarantee of customs duties.

Well, that did not work in India. When my stay was prolonged for another year, my carnet ran out, and I didn't know what to do with my car. So I went to the Indian Customs and I said, "I'd like an import license for a year."

"No, not possible."

"Can I sell the car in India? I am ready to pay the duties and the taxes."

"No, not possible without an import license, you cannot sell the car."

Then I said finally, "Can I drive the car past the Gateway of Bombay into the Arabian Sea?"

And they said, "No, that's also not possible, because it's still Indian Territory."

So, I had to get the car out of India before the first twelve months were over. And I had a nice Indian girlfriend, who in turn knew the brother of the king of Nepal, and we had a drink together in the permit room of the Taj Mahal Hotel and talked about cars and import licenses and regulations in general. And he said, "In Nepal there are no such difficulties," and he invited me to come to Nepal and sell my car there legally, which I did, and then I got into business.

KRASKE: Okay. So you went to Nepal and got rid of the car.

THALWITZ: Yes.

KRASKE: And sent the stamped document back to the automobile club?

THALWITZ: From Katmandu to Berlin.
KRASKE: So you spent altogether, two years in India.

THALWITZ: Two years and two months, inclusive of Nepal which turned out to be almost four months. I did some work on setting up a planning commission, so it wasn't only a pleasure visit or a visit to get rid of the car. I got into a bit of work there, too. And I must say, it became a basis for understanding a country which was much less developed than India itself.

KRASKE: So when you decided to go back your money ran out? Or what made you go back after two years?

THALWITZ: Well, I had a scholarship initially for one year, then for two years, and after the two years it was time to go home. While I was in India, there were two contacts that, in fact, determined the rest of my life. One in the Central Bank, where I met the first World Banker who happened to be Bill [William] Diamond, who was in Bombay for discussions related to ICICI [Industrial Credit and Investment Corporation of India].

KRASKE: He was living in Bombay at that time.

THALWITZ: I don't know whether he was living there, I just remember meeting him there. We met once or twice. Then since I had worked briefly in Berlin while waiting for my India trip, I was also working in the Economic Council to the Minister of All-German Affairs.

KRASKE: With whom was that?

THALWITZ: That was Thalheim, again, who was the head of this. We did a study on the potential of the re-unification of Germany and the cost thereof which today should be particularly interesting. I tried to locate the study and never found it again. But we came up with numbers, which were very high. We were talking about $60 billion a year, which, in fact, is not too far from the way it turned out. But then there was one colleague of mine, an elderly gentleman in that outfit who worked on the re-unification of Germany, who knew Mr. [Willi W.A.] Wapenhans, and he suggested, just like Bill Diamond, that I might want to join the World Bank. So there were two different strands that were coming together, one through my work in Berlin and a colleague there which led to Wapenhans. At the time the Ministry of Economic Affairs in Germany was looking for some young Germans to get to the Bank, so they heard about the story, and they sent me an application form.

The other strand was the embassy. There was a consul general in Bombay by the name of Hans Schmelting, who really thought a much better career than the World Bank would be the German Foreign Office. I pursued that for a while and, in fact, upon coming back to Germany from India, I took the competitive examination, where they had about 2,500 applications. And I got into the last twenty-five or something like that, and we had a four-day grilling, and they accepted me. So somewhere in 1961-'62, I was accepted by the German Foreign Office. But I also had an offer to come to Paris for interviews with the World Bank. In the end I decided on the World Bank. I did not go to diplomacy school in Speyer. It was a little stuffy there, and I thought the World Bank was a little more interesting. I don't know today whether I should regret it, but that's what I did.

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
KRASKE: So this was in 1962. When did you come back from India?

THALWITZ: I came back from India in 1961 and went back to working on the unification of Germany. In the middle of all this, the wall went up. And it became clear to me that continuing to work on the unification of Germany by 1962 was not a proposition with a future, and sadly I then revived the two alternatives I had, either the German Foreign Office or the World Bank. I made my decision to join the World Bank in the beginning of '63 and arrived here in September.

KRASKE: Was this as part of the first group of Young Professionals that joined the Bank at that time?

THALWITZ: Yes. Actually, that happened after the discussions had started about my joining the Bank. I guess they would have taken me without the YP Program, and I was a little old already for the program. When I first took up contact and the first interviews were arranged, the YP Program was not mentioned. [Donald D.] Fowler was the personnel chief at the time. In fact, they were talking about sending me to Africa, into the Africa Department to work on the industrialization of Africa with Mr. [John C.] DeWilde. Somewhere in between, the YP Program got invented. I think by Dick [Richard H.] Demuth. A coordinator was appointed, Dick[Richard W.] van Wagenen, and he wrote to me and said, “We will take you in any case, but you could go to Paris for interviews for this YP Program. It may be an interesting story.” And I did go to Paris where I was interviewed, and they explained in more detail what the YP Program was all about. “Junior Professionals,” it was called at the time. And I found that very attractive, the idea of two years of learning and bringing in what I had learned in India and Nepal and the studies I had done before. Getting exposed to a cross-section of different departments in the Bank interested me more than working with one particular person in one particular region, DeWilde in this case, whom I got to know later. So that's how I got into the Bank: as the oldest Junior Professional.

KRASKE: What were your expectations when you joined the bank? Did you think that you were going to spend a major part of your working life working for the Bank?

THALWITZ: Nowhere near it. In fact, leaving Europe, Berlin and Kiel, where I was living at the time, I came half reluctantly. It was the attraction of the World Bank rather than going to America that really pulled me here. I remember telling myself, “You have to hold out for those two years because you'll learn a lot in those two years as a Junior Professional. And then perhaps you can hang on a year or two where you'll use what you've learned.” But the time horizon never went beyond four years or so, closer to two than to five years, so everything that came later was a surprise to me.

KRASKE: And happened bit by bit not in the sense of some grandiose plan.

THALWITZ: No. There was no grandiose plan. You did your work, somebody came around and said, “Here I'm giving you a job, there's something interesting to do here.” Later when the promotions came, there was an added attraction to it, but mostly whenever I thought about going
back to Europe, an interesting job came around. So it was not a life plan but a continued attraction of new things to do in the World Bank.

**KRASKE:** I remember your first assignment was with Dick Demuth, who at that time was spending much of his time in Geneva, working with or preparing for the first UNCTAD [United Nations Conference on Trade and Development] conference.

**THALWITZ:** No. Demuth wasn't himself spending a lot of time on this. In fact, when I came—we were selected in the spring of '63 and we started in September—it was settled from the beginning that I would work for him in his department. Now he, in a way, was the inventor of the Young Professional Program, and I had a lot of experience in developing countries, and he knew what I had studied and thought he could use me for some of the think tank work he was still doing in '63.

This was the beginning of the [George D.] Woods regime, and he sensed that Woods would be open to some new ideas. He had had quite a lot of influence, Demuth, putting his two pennies worth in on IFC [International Finance Corporation] and the Young Professional Program, I think also on IDA [International Development Association]. So he considered himself some sort of a brain trust in the Bank, and he wanted me for that kind of work. His rapport never turned out to be as deep with Woods as it had been with [Eugene R.] Black, and the department didn't go much into the strategic planning for the Bank because he was getting out of this a little bit. So the nitty-gritty part of the Bank work became more important. That was the relations with the U.N., the technical assistance cooperation, etc. There were people like [James E., Jr.] Twining and [Munir P.] Benjenk working in his department, who were also being taken away from the strategic thinking work for the Bank to do the nitty-gritty work, and that's what I fell into.

At that time, the conference on trade and development was to take place in Geneva in the spring of 1964. There was never a decision that Demuth would go there. He selected Arthur Karasz, who was the former head of the Hungarian Central Bank, who had been kicked out and was another one of those now needed for nitty-gritty work, so he was appointed together with an Ecuadorian, Echeverria, I think, was his name. Demuth never declared who was the official representative of the World Bank at the Conference for Trade and Development in Geneva. The three of us were shipped off for three and a half months to live in Geneva for the duration of the conference. My two bosses were very jealous of each other and couldn't agree with each other. Karasz, the more substantial person gradually took over, but they still couldn't agree on who would sit in the official chair of the World Bank, so often I, the Young Professional, ended up sitting in the chair with the two of them behind me.

Other than meeting interesting people, I didn't learn much at that conference, apart from meeting interesting people like Ted [Edward R.G.] Heath and Che Guevara. The only tangible element of it was the creation of UNCTAD and UNIDO [United Nations Industrial Development Organization], agencies that are now being looked at again, but these were the elements that came out after three and a half months of talking.

**KRASKE:** Now there were a number of recommendations and requests that came out of the conference which were addressed to the Bank. One had to do with the creation of commodity
funds to stabilize commodity prices and support countries when commodity prices took a
downturn. There was also, I think, a study on debt and indebtedness. Were you involved in any
of this?

THALWITZ: No, we shared the work a little bit, I was in the so-called second committee at the
time, which was the committee on industry, the paradigm of the time. There was demand
essentially for what was called then a more balanced industrial development with a recognition
that it should be the right of the developing countries to industrialize behind higher tariff barriers,
in contrast to the industrialized countries which in 1964 were not ready for complete trade
liberalization either. So it was a committee looking at the combination of industry and trade
policy, very much hampered by the philosophy at the time that trade policy was an active
instrument of development policy of under-developed countries and that there had to be a trade
policy as an element for “rectifying the nature of trade relations between the richer and the
developing countries.” Not much came out of this. Much of that philosophy entered into the
UNCTAD day-to-day operations. Much of it came from [Raul] Prebisch, who was a supporter
of Latin American import substitution strategies. Countries like the United States, which were
much more liberal and could afford to be liberal in their trade policy at that time, never were very
interested in that kind of development.

The idea that you mentioned of a commodity fund was taken up by the Bank, not under any kind
of instructions, but it became a topic which Irving Friedman took up under Woods. Following a
stint with Demuth, I went for quite a while to work for Irving Friedman with a group of four
people, Eugenio Lari was there, [Ravi] Gulhati and [Rudolf] Hablutzel. He then asked us to put
together a proposal for what today we call compensatory finance. It was program lending where
some relations had to be established between the financing base of a five-year plan--everybody
accepted five-year plans--and the prospective financing base out of exports or out of normal
capital flows. The proposal dealt with calamities that would disturb the financial base of a well
thought out investment and policy program--a five-year plan. The Bank would then have a fund
that would kick in compensatory finance, essentially program ending, on the basis of gauging the
policies and the investment content of a country’s plan, setting it against the disturbance which
disrupted the financing plan. This could be a drought, shifts in terms of trade, the dropping out
of an erstwhile trusted aid finance source, and the Bank would temporarily assist with program
lending. It’s an idea that was taken up fifteen years later by the IMF under a compensatory
financing scheme, but the Bank did not adopt it.

I remember at the time I was selected at the end of my YP Program, what I very much wanted to
do was to get my hands dirty and join a projects department. They had arranged for me to come
to the Transportation Department. When we walked out of the Roger Smith Hotel after the first
lunch I had with my future bosses, they were not very pleased that I had tried to mess up the
decent project approach of the Bank by considering such a thing as program and policy based
lending as compensatory finance, which threatened to disturb the tried and trusted practices of
the Bank. They acted like they had very much second thoughts about taking me on after this
stint in compensatory finance.

In the ‘80s, when I was in Africa--I even tried it in India, which got me nowhere-- we first
discussed the idea of policy changes related in some way to non-project lending. Having gone in

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
1965 through the thought process of this interaction between economic policy and balance of payments—even if it was under this awful paradigm that everybody had to have a five-year plan and development had to be government led—there was something to fall back on for me, which was a good thing, for the work I did in the ‘80s.

KRASKE: We’re getting ahead of ourselves. Let’s go back again. Do you remember when Woods came and addressed the UNCTAD conference? Were you there when it happened?

THALWITZ: Yeah, I was there when it happened, but I have absolutely no memory of it. I was so concentrated on my committee. He spoke in the plenary. I have no recollection of what he said at the time.

KRASKE: Nor do you have any recollection about what sort of relationship he had with Karasz at that time?

THALWITZ: I thought that they were quite close.

KRASKE: I thought they were very close, and he was the one who, after all, appointed Karasz as the head of the Paris office. But then there was a point when Woods was absolutely refusing to see Karasz or to have anything to do with him. I was wondering whether there might have been something that went awry in Geneva.

THALWITZ: No idea. It was cordial in Geneva during the conference in ’64. By the time the events of which you speak happened, and this is the first time I hear about them, I was long involved with the nitty-gritty of importing pile drivers and laying bases for roads.

KRASKE: So you came back after the conference in the spring of ’64, and then you went on a second assignment with Friedman?

THALWITZ: That was the second assignment with Irving Friedman, which was supposed to last for six months like any other assignment, but it lasted for over a year, I think. And in fact for then we had a third assignment, which was an assignment in the Transportation Department. This, however, was supposed to blend into a permanent assignment in transportation projects, so I don’t exactly know when my existence as a Junior Professional ended and when the transport economist life started, except for a formal action form I must have received at that stage. I don’t remember the event. From day one I went into this and worked as if I was going to stay there forever.

KRASKE: I take it Bimal Jalan was then also working in Friedman’s office?

THALWITZ: Yeah. Bimal Jalan was the secretary of the Economic Committee. He was not part of this four-person group of which I spoke earlier that did particular policy research. We actually had to write a book about it. But my relation with Bimal was fairly close because I saw all the papers that would go to the Economic Committee, and there were people like [Andrew M.] Kamarck and [Dragoslav] Avramovic, with whom we had a lot of contact in the old economic department.
KRASKE: Hans Schmidt was there, also?

THALWITZ: Yeah, but I didn't see much of him. We had a very specific task, which was this program lending compensatory finance in relation to five-year planning, trade and financial flows. That was the major item of our work, but then we often attended the Economic Committee.

KRASKE: Right. And you stayed there until this was finished, even though it never went anywhere?

THALWITZ: Well, it got published. The projects department people and most of the people who advised Woods at the time came to the conclusion that the Bank wasn't ready to step over its boundaries in terms of organized program lending. That was the reaction of Warren Baum and others like him, Mario Piccagli, who was the head of the utilities department. In my search for getting my feet and my hands dirty, I had also tried the utilities department as power always interested me. So I went to him and after he talked for a while he said, “I'm not going to have a long-haired economist ruin my well-run projects department.” That was it; he didn't want any micro or macro economist.

Such people gave Woods an absolutely cold shower about any expansion into program lending. I thought he had much more of an open eye, but the establishment in the Bank just could not picture it. Another reason why it didn't go anywhere was because Friedman was thinking like a hybrid of the Bank and the Fund and much of what we did under this study entered territory that I think, rightly, belonged to the Fund. So this contributed to the fact that the Bank did not take up program lending at this stage.

At the same time, I think that sporadic forays into program lending were not thought to be impossible. It was the establishment of a regular window that would have its own rules which was the issue, the openness with which the Bank would move into this program lending business, and the laying down of the criteria by which it would be done. It took another fifteen years until this was even convenient and legitimate to talk about. We were ten years too early.

KRASKE: Right, although circumstances compelled the Bank at the time to take up program lending on a regular basis as a regular part of the program in India, Pakistan, and still later in Bangladesh. Circumstances really pushed the Bank in this direction early on.

THALWITZ: But that's very different. The Bank for doing what it did in India never had to declare that it had a set of policies, a facility that we could be separately financed, that had general rules of application. There was program lending in the ’60s only on the sub-continent and nowhere else. It was a much more ad hoc approach and therefore much easier to get by the Board [of Executive Directors].

KRASKE: Right, although the fact that program lending was unconditional in that sense was due more to the fact that the people at the receiving end absolutely refused to have any kind of trade between reform and money. It had less to do with the willingness of the Part I countries to
support such an approach. I think if anything program lending would have become much more popular at the time if there had been rules and some kind of clear linkage to policy reform.

THALWITZ: I think you are right. I was thinking about the resistance against such an idea from within the Bank and also shareholders and the entry into the IMF territory. What you are adding in here is, were the potential borrowers ready to accept such a scheme?

KRASKE: Right.

THALWITZ: Well, we never had a chance to test that as it got killed by the establishment in the Bank and by the resistance of the Fund and the shareholders who wanted this over in the Fund. But you're right: the only policy reference we had in those loans and that developing countries in our discussions were ready to accept was a judgment on the quality of the public investment program and the policies surrounding it in the underlying five-year plan. This was the closest you could come at the time to judging the expenditures by the developing countries themselves and the way in which they would be spent.

There was a very funny experience. At the time that we were working at it, the Bank had an operation in Peru over which a number of shareholders were a little concerned, including the United States. Mr. Woods went and checked with the Treasury, and from there it went to the White House, and the White House eventually came back saying that it was alright for the Bank to go in there, provided they have a good five-year plan. Nothing gives you a better idea of the change of the paradigm. The Treasury and the White House, in the middle of the 1960s, saying that the sense of the policy aspects and the quality of investment you can get is by looking at the five-year plan. If the five-year plan was good, you could continue investing. But that's as far as it went in the '60s.

KRASKE: Although some of the five-year plans, notably the Indian five-year plan, had chapters or components that laid down in a fair amount of detail some of the specific policies such as controls, investment, price controls, et cetera.

THALWITZ: Exactly. Sure. Treatment of the private sector, financial flows, sharing between public and private sector, all financial flows, savings applications, it was all there.

KRASKE: So to that extent it wasn't just a question of the quality of planning that was at issue here, but the focus was on economic policies even then.

THALWITZ: No, that's exactly what I'm saying. The funny thing is that the content of those policies and the distribution of investments between the state and the private sector at the time made out of the five-year plans what is essentially a copy or an adaptation of a Russian gross plan to the concept of development. The funny thing is that still in the '60s, the United States Treasury or the White House or the Brits or the Germans, for that matter, saw in a good five-year plan, with all its prohibitions of private sector activity, pre-allocation of financial flows to the state, and limitations on trade, a guarantee that a country was husbanding its resources and moving forward in development. So it wasn't a question of content or whether you liked that content.
KRASKE: Well, I don't think that is totally correct. I remember certainly in the case of the [Bernard R.] Bell mission there was a great deal of discussion about the appropriateness of policies and controls, the need to change the whole price system and to move in the direction of greater liberalization and decentralization and de-regulation. But it is true that the concept of a plan was taken as something that was essential. Nobody could conceive of a developing country moving along just driven by market forces.

THALWITZ: Or indirect control policies. It had to be direct.

KRASKE: Yeah, incentives were lost sight of. So presumably and precisely because you had this extensive exposure first to the UNCTAD conference and then to Irving Friedman and his kind of brainy ideas, you had this desire to move into the real world of the World Bank, that is to say the project department. If anything, this was enhanced then by your experience?

THALWITZ: Yeah. I felt I was getting one-sided.

KRASKE: So it was a deliberate career step on your part that if you wanted to be in the World Bank, you wanted to be where the action is, out in the field with the projects people in the real world.

THALWITZ: Right.

KRASKE: Now, at that point, I suppose, you were also beginning to look at your existence in the Bank in a somewhat longer-term timeframe?

THALWITZ: Two more years.

KRASKE: Well, I remember at that point you were beginning to eye the potential for promotions and for moving up in the system?

THALWITZ: No.

KRASKE: No? Well, I remember that you, and by that time [Edward V.K.] Jaycox, who had also joined, would take these trips down to the personnel department and bang on the table.

THALWITZ: No, the trips down to the personnel department were the collective effort of the Junior Professionals who felt that they were treated like slaves, underpaid, overworked, under-attended. Our trips down there were not promotion ideas or longer-term life--and this was more in 1964 or beginning of '65. This was not long-term planning, this was not looking at promotion, this was essentially that we were YPs now, Junior Professionals, complaining that the Bank was not making the best use of us. Do it better, pay us better, give us a better chance of having some influence, and that's why we complained. No, the promotion idea didn't get into my head until 1970 or so.
KRASKE: Anyway, so you stepped into the world of project appraisals and project supervisions, and it turned out to be transport. And that was in part because public utilities did not want you and transport, at that time was with Warren Baum, wanted you and asked for you?

THALWITZ: Yeah. I had no particular love for either utilities or transportation. Agriculture was still very small, and I had not much of a connection to it at that time, except my fertilizer work, and a bit of agriculture credit, which in turn wasn't taken up in the Bank, so it had to be pretty clearly infrastructure.

The basic idea behind this was that I had learned one additional lesson in my work with Friedman, namely that this Bank was going to be for a long time an investment institution. It would write fat economic reports to determine the environment under which these investments would have to survive. It would have a strong country relations aspect with the decision-makers in the borrowing countries, which would be exclusively government officials, but this was going to be an investment banking institution for quite a while to come. I had tested and seen that the Bank as a policy advising institution was still weak, didn't have the analytical capacity nor the political oomph to pursue it and no shareholder support for it. So the combination of my own interests in walking around in India, in Rajasthan, seeing agricultural cooperatives, doing the soil samples for a fertilizer factory, checking what went on in the marshalling yards of the Indian railways, and the recognition that the Bank was not going to be the IMF, left me with two choices. I said to myself, “If you want to stay on the policy side and do monetary and fiscal policy, go to the IMF. If you stay in the World Bank, then you get your feet dirty and you get into investments and you go where the investments happen.” And that was the projects department. And yes, you are right, I got nowhere on the utilities side. I went from door to door and said, “Take me, I'm interested. I know nothing of what you're doing, but take me, teach me.” And it turned out that the transportation department was the only one among the then projects departments who really wanted to look at economics as part of the investment decision. And that was where Warren Baum, who had come from the area department, assembled people like Hans Adler, Vince [Vincent W.] Hogg, Sei-Young Park.

KRASKE: [Herman G.] van der Tak?

THALWITZ: Van der Tak came later, and he came in sideways from the center. There was now a group of people who were very keen on not being just an engineering department, a development which took much longer in the utilities department to go through. And yet, when I went on my first mission, I went to Peru to the port of Pisco. I had done my homework, read all the consultants' reports, there was a financial analysis, a dredging and a pile driving analysis, but not a word about economics in there. So I went on the plane with a financial analyst who was British and a port engineer who was Norwegian. On this long flight, I asked my chief of mission, “Are we going to Peru”--I had no terms of reference--“for the appraisal of a port project? What's my function?”

And the mission leader said, “We got ourselves a nice project, but we need somebody to justify it after we've made the decision. You're here to write chapter five -- the economic justification."
I was a little peeved, because they were obviously not interested in what I would have to say, there were no alternatives being considered, this was the ex-post justification. I later introduced some modifications, because this was a fishing port, had a lot to do with the landing of fish for fish meal, which gave a big boost to the U.S. chicken industry. In the process, they over-fished the Humboldt stream, and the Humboldt stream did the disfavor of moving further west, but the port became so incredibly profitable that all the investment got paid back within a few years, which a later OED [Operations Evaluation Department] report showed.

But I'm telling you this story for one reason. Proceeding from working with Friedman close to the IMF, policy work, monetary and fiscal issues, capital streams, to getting your feet wet was not an easy thing at all because of the divorce of the policy and economic analysis on the one hand from the decision-making on the other. To many those two elements—the physics of constructing a port, and the economic and policy environment affecting the decision—took us another five years to have it fully accepted. And it couldn't have happened without Warren Baum.

**KRASKE:** He supported this work and your role in particular, very much?

**THALWITZ:** Yeah.

**KRASKE:** And he also understood what the issues were and that you had to look at?

**THALWITZ:** He was a fantastic boss. Just right for me and, in a way, right for the Bank. Had you taken a micro-economist—somebody like Vince Hogg, who went to Northwest, which was the only university in the United States where you really did transport economics—had you taken the transport economist and put them in charge of the transportation projects department, you would not have had the effect in terms of changing the culture of the Bank that you got by taking a country economist, which is what Warren was, and which later [A. David] Knox and [Mervyn L.] Weiner were. These were substantial economists with country experience, and they were as eager to learn the micro-economics—even in collaboration with the engineers and the financial analysts—as some of us younger guys tried to apply some economic rationale to the choice between investments.

So, in fact, if somebody did it well, like Warren did, he forged a new approach and a new team. He integrated the engineers who were sometimes puzzled as to why they had to jump through these hoops. But he integrated them into the making of choices by economic means. He could make clear to them that you had to check the macro-economic consequence before you decided which business policy you wanted to pursue. And things fell into place.

Young economists, even Hans Adler who was young at the time, fitted into this by translating their macro-motivation into micro-economic analysis—fitted as a result into a team with the engineers and financial analysts. It took about two or three years. Baum was ruthless—anybody who didn't play at this, he let them feel it. But he was very successful.

**KRASKE:** This was then new, not just in the Bank, but generally, also in investment planning and evaluation?
THALWITZ: Yeah, I had a chance to compare what we were doing in the Bank with my rather deep knowledge of the third five-year plan in India. Most of the techniques we used were used at universities. There were adaptations from the financial analysis techniques like internal rate of return calculations with the economic modifications. No five-year plan ever applied to them across the board, because you didn't have the yardstick for intersectoral comparisons. It was known and used in the public investment analysis as a counter-check but not as a means of determining the composition of an entire investment plan. And to this day we haven't done it. There never has been developed a methodology to use micro analysis for comparative purposes for the establishment of a public sector investment program. There is no yardstick for intersectoral comparisons. But the methodologies on the micro side were known but had not been applied, so we applied them together with the financial analysts who provided a lot of the raw data.

What was even newer but had not been done at all was the analysis of the sectoral policy environment. It started with some very simple things that bug us still today, such as the question of tariffs or of consumer surpluses. How do you price away an added advantage you give to a consumer because the country indebted itself vis-a-vis the World Bank to make an investment for his benefit? How much of a consumer surplus do you generate that way? How do you price it away? In other words, how to create a siphoning mechanism which supports the sectoral policy environment and financing capacity. That was new; it had not been done before. Warren did lots to introduce that. And then people like van der Tak came in to elaborate the methods.

KRASKE: So this is then a question of what sort of tolls and fees and tariffs you should charge?

THALWITZ: That's the pricing away mechanism. Or how, for example, are the users organized? As the provider of a public investment this should interest you. I remember the assessment of the Indian trucking industry when you had the question, “Should you invest more in roads or in the railway?” Under what policy environment does the Indian trucking industry operate?” The only question an engineer would ever ask was, “Will the bridge stay up?” But there was much more than the question of, “What is the railway tariff for a ton of grain going from the Punjab to Madras?” That was only one important question. But the second question was, “Is there competition? How is the trucking industry organized? What's the role of the state in keeping it the way it is organized? Is it efficient or not?” Then came questions such as, “What is the tax system? How is it operating?”

In fact, when I was working on the railways in India, I had made an assessment of the trucking industry. I was allowed to look at the books of a trucking firm in Delhi and found an entry that said in beautiful Kipling English, “elimination of adverse administrative barriers.” So I asked the accountant could he tell me what this meant, and it was a sizeable sum. He said, “Sir, this is what we put into the pockets of our drivers to avoid octroi.” This was not the first time I had heard the word octroi, because when I went to India, I once got stranded and a truck had to pull me into Indore, and I had to pay octroi. Then I learned that the relative position of the railways in India had a lot to do with the taxing system on the roads. Octroi taxes were forbiddingly high. The railways were interested in keeping it that way, they didn't pay octroi, and the trucking firms
responded by a formal entry in the books for bribes, to minimize the cost for the administrative inconveniences of the truck going from Delhi to Madras.

This is how we worked. You started out with the question, "Do they need in the Indian railways 35,000 wagons? What's the economic analysis of this?" Before you knew it, you had to ask yourself, "What's the investment policy on competing modes of transport? What's the policy environment? What's the taxation system? Who maintains the roadway for the railways? Are they screwing themselves in the railways?" And then we widened this. It became interesting when we hit on the boundaries of macro policies, which we often did. Then we had to talk to our colleagues, the macro economists, and they were very often puzzled as to why we were coming up with these funny questions when we were dealing with so many railway ties.

In some regions there was much more response than in others. I remember in Latin America, there was [Roger] Chaufournier, [Gerald] Alter, and they snapped it up immediately. In Asia, I once had a discussion with [I. Peter M.] Cargill. I thought he'd throw me and my boss out. That was his territory, he was worried about it in the first place, he wanted us to lay ties the railways could go over. It was very interesting, so it became the subject of a new tension within the Bank, a tension which I almost liked that it existed because when you really took the micro-investing job seriously--and I was sure the World Bank would remain a micro investment place for a long time--you couldn't close your eyes to the economic policy questions.

KRASKE: Now, you did this for three years; you started at the end of '65?

THALWITZ: Yeah, middle '65, for three and a half. Then I went to Indonesia.

KRASKE: Yeah. In '69, I guess, you went to Indonesia. This was the period that you spent in the transportation department. Did you feel that you had attained a certain proficiency in what you were doing? At the same time, of course, as you described just now, the territory was expanding. There were new issues, the scope of the work was widening. But you felt that you had attained a certain proficiency?

THALWITZ: Yeah.

KRASKE: And you were becoming restless and wanted to move on to other things?

THALWITZ: No. Not at all. In fact, I felt that if I wanted to stay in America, I could have another five to ten years in that field and I would still not get bored--I would still learn there.

Give you another example at that time. In, I think it was 1966, long before Indonesia, we still had economic reports, and I went on an economic mission to Algeria headed by [Dragoslav] Avramovic, and shortly thereafter I went to Mauritania. That was work for the investment bank as part of a macro team. We ended up with these fat reports. We were five people in Algeria for transport alone, [Hendrik] van Helden, [Francis C.] Soges, some sectorial expert, but I very quickly got through to Drag and Eugenio Lari, who was working for him, and we got to the question, "What does this country really want? What kind of policies does it want to pursue? How does my field, power, relate to these objectives?" And there was a Filipino girl, who was
one of the first oil experts in the Bank and Algeria was an oil and gas country. And there the question of having limited resources was, "Do you develop the industry as a state property, do you go for gas liquification, gas transport, or do you invite international oil companies to defray that investment for you and you put your money into infrastructure?" In the end, they wanted to do it all by themselves, including new steel factories. All these questions were on the table in this newly independent country, very much different from the questions faced by Korea or even India. There was a completely new set of options for this country, which was from day one an oil and gas country with a very socialist government that wanted to do all of it, steel factories, glass factories, everything to be run by the state. In particular, the government did not let the private sector in on the oil side, which could have been royaled and taxed away, and then used for infrastructure. These were choices the government did not want to make. I knew in 1966 that there was trouble brewing in those areas, and I told Avramovic at the time that I see the transport side here but I also see the oil and gas side, and there is a choice here. If they really want to invest in the gas development, all by themselves or with some French help, and if they want to modernize their infrastructure—some of it was overdeveloped already by the French and so it had to be maintained—other investments such as in telecommunications had to be made. Therefore, if the government wants to do the hydrocarbon sectors and infrastructure itself and then go into industry, the government is going to be in severe financial trouble in spite of the oil sales. I told the Algerians that, and Avramovic knew it was true.

You can't imagine how exciting it was to switch from, let's say, a desert road in Niger, and on the next mission to the Nasca-Cuzco Road in Peru, back to Peru the second time, then suddenly in Algeria to face this question, "Where does this country really go, and how do the sectoral components fit into this overall strategy?" So I thought I was learning from these engineers and from the financial engineers. I was expanding the field of micro-economics, as well as maintaining contact with the macro questions. I thought I could do this forever. This is a long answer to your question. I was not restless. I was happy.

Then out of the blue came this call from Bernie Bell saying, "You will go to Indonesia."

And I said, "How can you say that? I'm happy here."

So he said, "Mr. McNamara has given me a hunting license and anybody I ask should go, and the bosses of the people I ask have absolutely no chance of preventing me from taking those people, and I'm reporting to McNamara direct, so you're it for transport."

I really didn't want to go. I had been to India, then Nepal, I didn't want to live in a developing country again. I didn't know what Indonesia was like, so I negotiated a one-year contract. I said, "I have enough in-country experience, I'm still learning a lot here." So they gave me a one-year contract. I went to Indonesia and stayed for a year and a half.

Essentially, then, Indonesia became what Algeria was. If you put in the port of Pisco project, the Indian railways, and the Niger Road, it was an emerging country, emerging out of the mess created by Sukarno, with one task: getting decent investment going in an overall framework that lets these investments reasonably succeed. That is what we did in Indonesia. Nothing special could have been done in Algeria. The special thing about Indonesia was that McNamara adopted

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
the country--the lines of communication went straight back to him--and the government accepted us almost like a shadow government. Very different from India and Peru; the Indonesians accepted us and wanted our advice.

KRASKE: There was also very much of a personal aspect to it, in the sense that Bernie Bell knew the characters there from way back. They liked him and took to him.

THALWITZ: You're absolutely right, I mean, you had known Bell much better than I would because of the Bell mission to India. But had the Indonesians not known him before, it would have worked just as well, because the personalities fitted so nicely. Bernie Bell was extremely helpful and so unimposing. He would be called in by these people or would bring us along, and they would ask us what to do--they often had some ideas. Rather than jumping out and saying, "That's how I think it should be done," or "I'll do a study," which was already then very much the arrogant style of the World Bank, he did none of that. He would sit and make you feel that he was thinking with you. He would ask a little counter-question--feeding his machinery with added information. So it's true, as you said, that some of the guys knew each other, but more importantly, their personalities fit so perfectly. And it became fairly easy for us younger guys, like Tony [Anthony] Churchill, who was not always easy, Heinz Vergin, [John C.] Lithgow, who did the power part, Tom [Thomas C.] Creyke (I think was his name) in agriculture, and I was alone on transport. This became a very close-knit team, very well led by Bernie, beautifully accepted by the Indonesians, but with a lot of hardship. I didn't live as well in '69-'70 in Indonesia as I had lived '59 in India. We had a deputy head of mission who made our lives miserable.

KRASKE: Alfred Matter? Counted every postage stamp?

THALWITZ: Postage stamp, door knobs, he went into international competitive bidding on door knobs. And we stayed longer in the hotel, paying high prices, because he couldn't bear the thought that some Chinese would rip him off in selling him too expensive a door knob.

KRASKE: Bernie more or less let you each handle your sectors? He wasn't really interfering much?

THALWITZ: No, he wasn't interfering much and because of that he got what he expected. I tried to learn from every one of these managers how they functioned. I learned one thing from him, which I kept to the last day of my own work. He always knew more about what you were doing than he would let you proudly know. He would read something from headquarters about transport, he would read a draft of mine, and let me go on. But when I came asking for help, I would suddenly realize that he had been learning along with me, and when I needed him he was ready to respond. He waited until I came to him, and I recognized that he expected that I would come to him. I was very impressed with the way he had no interest in showing off his knowledge. He would just wait, absorb some knowledge, store it somewhere, and use it for you when you came to him.

KRASKE: This was, of course, also a very opportune and fortunate time to have him come in and give economic advice to a set of people who had been through a disastrous experience and
who were ready to discard any prejudices and look at things pragmatically and in a practical way.

**THALWITZ:** Yeah.

**KRASKE:** And so in that sense, it was really a very, very unique situation. Political obstacles didn't exist, or were not, at least, of a significant order. And I suppose at that point, also, the negative aspects of the laissez-faire regime in Indonesia, the extent of corruption and so on had not yet manifested itself?

**THALWITZ:** You're right, but yet I must give some credit to the Indonesians. Their situation was unique. Everybody was fed up with the mess that Sukarno had created. Sukarno was gone. There was domestic civil strife, with a lot of killing going on, particularly of the Chinese.

**KRASKE:** Even while you were there?

**THALWITZ:** It was just behind us. There was still some going on. There was still witch-hunting of Communists.

**KRASKE:** Contrasts! There were hundreds of thousands of Chinese who had been butchered. And yet here in the U.S. nobody ever said anything, and here, now, you have Harry Wu going around complaining that the Chinese use prisoners to build Bank projects and everybody is up in arms.

**THALWITZ:** Well, communications weren't like today. There was no television. I still saw some blood in the rivers. But you're right, altogether there was a starting situation with very unfortunate experiences, which people wanted to put behind them. There was this incredible desire to be normal and developing: getting rid of Sukarno, putting an end to the butchering and to the Communist witch-hunt, and focus instead on the economy. Some of this still went on while I was there.

The Algerians weren't all that much different. They had a war of liberation, they'd fought the French for so many years, and they had a civil war among themselves. They had well educated people, socialists, why didn't they do what the Indonesians did?

**KRASKE:** Well, ideologically, they first had to the other route.

**THALWITZ:** And they started fighting with each other very quickly. By the time we got there, Ali [Ahmed Ben Bella] was out, [Houari] Boumediene had just taken over, so they weren't as easy and free to accept a Bernie Bell and his team. And they weren't ready themselves as the Indonesians were to say, "Look, we will need all this help, and occasionally, we will have to jump over our sovereignty problem." Why didn't they do it? Why did they not do it in Latin America? How many problems did we have in Tanzania at the time? How much of this was ideological, how much of this was inherent in the political structure of society, I don't know. But it was not easy for the Indonesians, either.

*Wilfried Thalwitz*

*January 22, February 12 and 28, 1996 - Verbatim*
KRASKE: Welcome back, Wilfried. When we left, we were in Indonesia talking about the purpose of the mission, the conditions of Indonesia at the time, and the peculiarities of Bernie Bell, who was the mission leader. I thought you might want to say something briefly about the particular tasks that you were performing, presumably as a transport economist and advisor in the resident mission. Also, what then led you to come back from Indonesia? Did you complete a particular report? Was there some task that you had to perform before they would let you go back again?

THALWITZ: Right. On the last question, I did not exactly volunteer to go to Indonesia. Bernie Bell had an open recruitment license and none of the bosses could say no, which made it equally difficult for the targeted persons to say no. I was a bachelor and had just begun getting somewhere in the transportation department, where there were relatively few economists. When Bell selected me, I knew pretty well that I could not just say no. But I had an arrangement with Bernie, which was endorsed by McNamara, that I would go for one year. Since I was a bachelor, that wasn't too expensive for the Bank. Everybody was hoping that I would extend, but they took me under those conditions.

As you implied in your question, I had a very specific field and was responsible in the resident mission for everything concerning transportation. In a way, this was like one enormous extended economic mission with one added feature. Quite apart from the analytical work that an economic mission does from the macro to the systemic to the sectoral considerations, there was a day-to-day advisory function vis-a-vis the government. The resident mission in Indonesia was expected by the government from the beginning to have a tight working relationship with the various government departments that tried post-Communist reform. There were some very capable U.S.-educated people, but without experience in the practicalities of development.

I had a dual reporting relationship: within the Bank with Bernie Bell and the Asia region and within Indonesia in the advisory function with the Minister of Transport, Mr. Frans Seda, and with the Planning Commission since the entire mission was housed in BAPPENAS [Badan Perencanaan dan Pembangunan Nasional; National Development Planning Agency]. This wasn't always easy as there was some friction between the technical ministers involved in the execution of their functions and the planning advice that the planning commission extended. In the end, with reasonable good will, we managed to get along and work quite constructively.

I had two very specific tasks: the completion of an analytical piece covering the transport sector in the form of a chapter of an economic report. This chapter covered transportation with all the policy questions, tariffs, intermodal distribution functions, and the role of transport industries partly in the private sector. This was complicated by the fact that the army was an enterprise engaged in road transports, trucking and particularly in inter-island shipping over the 3,000 islands of the country which proved to be difficult--the army being a difficult
entrepreneur to integrate into the analysis of the transport sector. Finally, there was, of course, the establishment of a rational public sector investment program. I finished the report within the year.

We also had another specific task which was to put together a first operation for the World Bank, which we did in record time, in about six months. The engineer, [Patrick O.] Malone, resided at headquarters and I was the economist for this project. It was a road maintenance project with planning components and some rehabilitation. Malone and I enjoyed a good working rapport, with none of the jealousies which existed between the head of the mission and regional management. There were no such problems, either, between the loan officers and the project team.

Our professional life in Indonesia was as much conditioned by this hazy advisory function as it was by the two easily identified elements in my work program, the transportation sector report and the project. Looking back today, I don't think that I spent more than forty to fifty percent, at most, of my time on these Bank internal output pieces. The rest was much more diffuse.

Just to give you a few examples, I would go on the railway between Jakarta and Surabaya with BAPPENAS people who probably had never been on a railway before, simply to inspect what would be the investment requirements on a railway so dilapidated that at times it could travel at no more than 20 kilometers per hour. Even before I got the engineers in, it became pretty clear to me that here was outdated eastern European equipment--mainly East German--and that the old Dutch infrastructure was completely run down. Bridges were no longer safe; there was no automatic traffic control and danger of collisions. I took along the people responsible for the railways and made the very first recommendations. One of them was that it made no sense to buy Japanese locomotives overnight, which the Japanese had been pressing for, but there were operational and infrastructure problems which had to be fixed before a modern railway could be put on the track.

I found $60 million dollars worth of unused highway equipment which otherwise we would have financed had we not found it in the bush in Sumatra. It had been bought on credit by Sukarno and had not been paid for. It was French equipment, but it was there now. The debt was established. Nobody had known what the debt was all for, but at least we found the graders whom we helped assign to particular maintenance stations. It was very practical work. Then we looked at the ports, and in the port of Surabaya, we went out in a little rubber dinghy with an engine. We put lead sinkers into the water just to see how much draft there still was. Nobody knew, and we found a brand new sunken submarine in the middle of the port of Surabaya.

So, it was often not so much a matter of giving advice but of initiating action. You had to instigate a technical ministry not to administer but to go out and look at the railway track or to look at what was down there in the water in the port. That was a very rewarding thing, and of course, the officials liked this a lot.
As useful as it was to instigate technical ministries to chase after practical things that had to be done, there developed a certain reliance of these technical ministries on the in-house experts of the World Bank. If there was one negative thing about the resident mission in Indonesia of that time, it was the quasi-governmental function that the World Bank's mission and therefore the World Bank as a whole began to slip into an activist role. There was a distinct blurring of responsibilities of the government and of a foreign advisory institution of which, of course, Indonesia was a member. I began to feel very uncomfortable after about a year. There were also questions of procurement in which that very openly showed itself. When there was a Japanese locomotive or an Italian piece of road equipment with a credit offer on the table and a lot of pressure from individuals to go in this particular direction, you couldn't always hide as you can when you sit in Washington behind rules and regulations. The advisor was asked--often not concerning World Bank money--to advise whether, with the particular financial conditions and technical specifications, they should buy these 200 Toyota trucks or buy NMI or a French railway coach. There was no way of ducking these things, and the pressure you were subjected to condone corruption was great.

The close interrelation between the resident mission and the government in an advisory function meant that the government abdicated from some of the functions for which it had clear responsibility and, second, that the advisor occupied a position of power, which wasn't easy to deal with in terms of temptations and pressures. It was not only the Asians who were in there. I had the wildest offers from very well respected German manufacturers and French government people.

KRASKE: Now, in addition to the Bank mission, there were other groups who were also advising the government. In fact, Indonesia at the time was like a honey pot which attracted all these advisory institutions--Harvard, the Ford Foundation, Rockefeller Foundation, UNDP [United Nations Development Program], and the IMF, who were offering their services and trying to get a piece of the action. How did that play out on the ground?

THALWITZ: Well, what I observed was that the government became a little captive to its own advisors. The multitude of advisory groups fed the same ministries, with some friction between them. So the government had so many to choose from. The one party that we probably worked closest with was USAID [U.S. Agency for International Development], who had an enormous mission. But the point to emphasize is that none had a position comparable to that of the World Bank.

KRASKE: Was that because of Bernie?

THALWITZ: No, it was by design. Bernie was the man to implement it, but the design had been worked out between McNamara and Suharto. It called for the World Bank to establish a group of advisors resident in BAPPENAS, which was itself as the planning commission in charge of the design for development. BAPPENAS was the designer of economic policy and construction of the public investment program. So the other groups were advisors who could be called in by different ministers, the Central Bank or BAPPENAS, but at the leisure of these
Indonesian agencies. With us the original agreement was that we were going to be here, always available, our chairs nine feet away from theirs, so we had an established position which was different from everybody else’s and which brought greater dangers for going native and becoming part of the government than for any of the others. The USAID mission was still a representative of the State Department, as well as an annex to the U.S. embassy, and nobody would ever think of confusing them with the Indonesian planning commission. They had influence and money. But the permanent mission of the Bank in its advisory function, being so closely associated with the local administration, was based on the special role of the Bank. There was one guy from the IMF who was in a similar situation, but for the rest, they were all more removed.

**KRASKE:** Now, you mentioned the tension in the relationship with Washington. Was that because Bernie Bell had his direct line to McNamara's office and wasn't paying much attention to the program department?

**THALWITZ:** Right.

**KRASKE:** Was this before the '72 reorganization?

**THALWITZ:** We're talking '69.

**KRASKE:** You were still relating to the old projects department. Was that relationship also difficult?

**THALWITZ:** That was also affected. Tension existed between the program department and the vice president, mainly [Raymond J.] Goodman and Cargill, and the head of the mission. I must emphasize that Bernie Bell didn't say he wasn't going unless he dealt directly with McNamara; I think it was McNamara who thought that he should visibly take responsibility for the special effort that the Bank was making in Indonesia. He was thinking of similar efforts in Algeria and in some other countries, but only in Indonesia did it come to bear. Bernie Bell was the executor of the McNamara design, which had been worked out with the Indonesians. He relished it, of course, as he only had to deal with one person, and that was the World Bank's president. So he made his contribution.

The personalities of the people in Washington and Bernie Bell were not well suited. Bernie Bell always arranged to be out of town when either Cargill or Goodman would appear in Indonesia, and it became obvious to them that the Indonesian government, which had adopted Bernie Bell, would treat them with a minimum of politeness and certainly would not make any decisions on the direction of the World Bank’s work in Indonesia without Bernie Bell. None of the actors really did anything to deal with the resulting tension. Everybody either enjoyed it too much or felt too hurt by it, so that the readiness for compromise on the part of Cargill and Goodman or Bernie Bell and Alfred Matter did nothing to attenuate this basic problem.

**KRASKE:** Did you feel the firm hand of McNamara in your day-to-day life?
THALWITZ: Not on a day-to-day basis. McNamara had conversations with Bernie Bell pretty often and made sure that at least twice a year he would get the story from the Indonesians on how things worked. He didn't get that from his own programs people. Again, that was another cause of friction because the programs department was kept in the dark. So Bernie had to prepare for the annual meetings' discussions and various other meetings between McNamara and the Indonesians. Twice a year McNamara received feedback both from Bell and from the Indonesians, and since these two groups had grown together so tightly, he always got the same story, and there was never any friction arriving at McNamara's desk about any problems between the resident mission and the Indonesians.

KRASKE: Did you feel emanating from McNamara's office any particular directions as to what you should do, how you should do it, and what items you should focus on?

THALWITZ: No. In the beginning it was very obvious that his direction was general; he looked at our work in very general terms, but you knew that he was deeply interested. Here was a government following a traumatic political transition, having gotten rid of Sukarno, and confronting overwhelming economic problems. Poverty was extremely widespread. There was enormous tension in the country following the overthrow of Sukarno, and the Chinese had been attacked with lots of bloodshed. There was fear of communism. It was essential to make this economy efficient, to let the people of that economy feel that efficiency now reigned and that there was a chance for growing and joining wealthier nations. That, of course, meant sensible policies, good projects, good investments, good administration, plus the sympathy McNamara had for the people. He already showed some interest in the population problem, which I had not seen in other country contexts.

KRASKE: He didn't focus on the poverty issue?

THALWITZ: Before I went out there, I had a one and a half hour talk with him. If I were to reconstruct it in today's atmosphere, the poverty theme was non-existent in the Bank. There were in our discussions traits that came back four years later. When McNamara would talk about life in the villages, there was a concern for excessive population growth and the earning capacity of agriculture. He knew oil would become important, better than we knew when we went out there. He looked at Indonesia like a businessman, like a business man looks at a company which would have revenues. What to do with the revenues? Would they be spread it in such a way and so efficiently that wealth would be distributed in a better fashion? All these themes now ring bells because we've heard them since 1973. But if I were to reconstruct the atmosphere of 1968-69, it is surprising how his concern about income distribution and the efficiency of social systems, how all that was already part of his thinking.

You asked one other question which I haven't answered yet, which was about relations with the project department at headquarters. There was less friction. I did need the engineer who worked for David Knox at headquarters, I needed to get along with him, and we were friends. That didn't mean that occasionally the director of the worldwide transportation department didn't like very much what we were doing. In fact, he visited me once, arriving on a Sunday, and was very angry that the port was not open yet. He blamed me for it. It was the first occasion I had of saying to him, "If you really think that we're doing the wrong thing, you will
have to talk to Mr. McNamara.” It was a polite way of telling him that I was working more for McNamara than I was working for him. I was young, so I did it carefully. But still, the friction was apparent. In the end, it worked out well because teams had to be formed, and we worked closely with headquarters in the power and transportation sectors.

We had three people dealing with agriculture out there, working on their own without much friction. But you’re right, some friction resulting from the design of the mission and our role did affect the sectoral side as well, and I contributed to it.

KRASKE: In 1970 you came back here and became division chief in the West Africa department?

THALWITZ: Yeah, on the program side. When I went out to Indonesia, there was one person who said don’t go: it was the personnel chief of the Bank.

KRASKE: Reg [R.A.] Clark?

THALWITZ: Actually Reg Clark and Konrad Busse. Konrad Busse was more open than Reg when he told me that the Bank was introducing some sort of planning for future managerial positions. He told me that I had now been in transportation for five or six years and that I was part of a core of people to whom the personnel administration wanted to give wider exposure in the Bank. The next assignment that might come my way--something that I hadn’t done yet- might be in the financial complex or on the programs side or maybe in the economics department. But before too long, they would just ask that I get out of the projects department and do something else in the Bank that would give me a wider basis for future work. For this reason, he thought that I shouldn’t go to Indonesia as this move was likely to happen within the next two years, but if I was in Indonesia, nobody would want to take me. As I said earlier, it was easy to say no as a bachelor, so I went off to Indonesia.

After about nine months of being in Indonesia, the Bank changed its personnel system and introduced grades for the first time, as you may remember, from A to L. What today would be a level 25 was then a B. A was approximately the division chief level. A/B was a deputy division chief or like a 25 today, a prominent person within the division. Then the question came up how to rate people assigned to the resident mission in Indonesia, and the big issue became whether we were going to be a B or a C. Some of us out there aspired to an A, the equivalent of today’s level 26. Finally there was a decision that we would be given a B, the equivalent of today’s 25, with a warning that we would have to be prepared to take on a new assignment once we returned to headquarters. This is how I got the job of a program division chief in West Africa--West Africa because I knew some French. There was practically nobody in the Bank who spoke French. A few French, some Belgians and I, had worked in this area from the transportation side. I had worked on Cameroon, Chad and Senegal, very painfully reading French consultants' reports. I remember in 1966 there was a snowstorm and for five days I sat and translated, word for word. It was a distinct effort by the Bank, without big fanfare, to identify maybe fifty people or so who, without really pre-planning their career, could in some way be exposed to responsibilities other than the ones they had grown up with.
So, I took over this job as Equatorial Africa Program Division Chief. I enjoyed it tremendously. In fact, I was quite successful due to one factor, namely, that I was recognized. At that time the programs and projects relations were still quite frazzled and there was a lot of arrogance on the projects side about these negotiators on the program's side, as the people from programs pompously talked about the development prospects of the continent. There was a lot of misunderstanding between the two groups. I was lucky in having a boss like Chaufournier, who was a very constructive man with little patience for the petty conflicts between programs and projects, notwithstanding the fact that as an economist and a diplomat, his heart, in a fight, would have probably been more on the program side. But he did a clever thing. He wanted a few projects people to take responsibility on the macro side, the programs side, and vice versa. True enough, when I put a country program together for Cameroon, which wasn't easy at all, I could pull along the projects people without them feeling that I was over-lording them. It started with transportation, which was heavy in the investment programs of these countries, then agriculture, telecommunications, and then I introduced the very first education projects in Africa.

So it became an amalgamation of program work with some economics—we didn't have very good economists—and strategic work, with the individual project investments fitting into this strategy, which enabled us to pull along our colleagues in the project department.

**KRASKE:** These were pretty quiet countries at the time. Did we try to generate a lot of business? Were you very active in that?

**THALWITZ:** Yes. When I took on this job in 1970, I hadn't been in it for more than maybe five days when I looked up one day and there stood McNamara, right in front of me in my little cubicle. He said, "Wilfried, I have appointed you with a purpose: you will triple lending to Equatorial Africa within three years, hopefully within two. I think that the Bank has done a deplorable job in Africa, and I want to change that. All that we have done in Africa so far is supporting plantation agriculture and some transportation investment which the old colonial powers could have done just as well. I want more, I want broader, I want genuine development, and you will triple our lending."

True enough, within three weeks he asked to have country program or strategy papers for the major countries within six months. It was the preparation of these country strategy papers which really did make me focus because I knew I had to walk into his office and itemize what I wanted to do in Congo or in Cameroon and how it would fit into the macro situation, what the Fund would be doing, what the French would be doing, and then I had to mobilize my colleagues in the projects department, who had their own budget, to endorse this plan and promise their collaboration.

It was at that stage that the old projects relations and my reputation for quality work began to work. It was an incredibly exciting time. Suddenly there were lots and lots of projects with strategic significance competing with each other on across the various regions of the Bank. Questions came up such as: why does Equatorial Africa need five refineries in the public sector where one would be good enough? How do you get out of plantation agriculture if plantation crops provide the foreign exchange for imports for the rest of the economy? What

*Wilfried Thalwitz*  
*January 22, February 12 and 28, 1996 - Verbatim*
kind of agriculture will you have instead? And in what way can the Bank help? These were not questions people had thought of before. There was this whole question, what you could do for the development of a country like Gabon, where you had very low literacy but a very narrow portion of people aspiring to be Frenchier than the French and going to French universities. How do you underpin any kind of development approach with a broader basis of training? There were no vocational training institutions; the training in agriculture, and even commercial training, was provided by the plantations and the sugar and palm oil factories. So it was a matter of designing an approach to having an education system which would be truly national, more geared to the composition of an independent country than to an appendix of a colonial power. This became the basis of the very first education project in Africa.

The architects, of course, took over straight away, worrying for days about the angle of the roof in a Chadian education project and overdesigning everything. The Africans had built schools where the top one and a half meters of the schools had no wall and you got natural air conditioning. Our architects had school buildings with completely closed walls and air conditioning behind the house that would break down the second day and not enough windows even to get cross-ventilation. So how do you keep yesterday’s project colleagues, who are not in my sector, from being so overly technical? How do you change their designs? In agriculture the big problem was getting word to the smaller farmer and providing him with some services. Nobody knew of [Daniel] Benor and his extension system at that time.

There were macro questions, too. For example, I could not in two years of discussions with Cameroon get them to understand that a zero interest rate is not good for development because it fosters investment without encouraging savings and the mobilization of resources. I also had fights over this issue with the French advisors.

KRASKE: What was the relationship like with the French, who were, of course, always pushing the Bank to do more in West Africa? How much of McNamara's insistence that we should triple our lending and do more in West Africa was really a response to that pressure?

THALWITZ: In 1970 the French had not yet discovered the Bank as a potential source of support for West Africa. They did not push the Bank to become a major instrument of financing, nor did they get worried about the particular patterns of development that the Bank would impose or recommend. That all came ten years later. It took about ten years for the Bank to become big enough in Africa so that it could be an important factor in assuring growth and peace in Africa, which was in the French's interest as well as in everybody else's. The concentration on the small farmer as opposed to the plantation that farmed commercially, with monopolies in processing and international sales and even serving as a taxation agency, came ten years later and led to a major clash. The desire to do more in Africa was home-grown with McNamara, and it was much more of a worldwide mission objective than it was a response to any erstwhile colonial power requesting that the Bank do more in a particular area.

Initially, when the French saw what we were trying to do, they were very helpful and very collaborative. They hadn't invented it; they hadn't put pressure on McNamara. When we got in and pointed out that there was no road to the north of Yaounde yet the real Cameroon lies
800 kilometers to the north of the capital, they were in full agreement. Part of our program was a road that would, for the first time, make it possible for the cattle economy to be somehow linked to the coastal area.

But then the Africans tended to go overboard. I once went to the Central African Republic. [Jean-Bedel] Bokassa was still the emperor, and he wanted a railway. We did a feasibility study of the proposed railway that would link the Cameroon railway to Bangui, hundreds and hundreds of kilometers through the jungle. We quickly came to the conclusion that this would be a waste of money. Needless to say, Bokassa was very angry. He locked me up at a diplomatic dance and wouldn't let me out until the morning at four o'clock. He told me that he was very annoyed with me because he had already printed a stamp with a locomotive on it, and how could I destroy this project.

We then also had our first clashes with the French, also in connection with transport investments. There was a proposal to build a railway from Yaounde to the interior of Gabon, and there were twelve French and two German forestry companies who were interested in exporting the tropical wood and needed a railway. Further inland, there was also an iron ore deposit.

KRASKE: This was all in Gabon?

THALWITZ: This was Gabon, but you're talking about Gabon and Cameroon and moving from the west into central Africa and to northern Nigeria. So these were all international connections. There was also the manganese mine in the southeast of Gabon. These are all vast countries territorially, and the railway was to cover great distances through difficult terrain. I declined the financing of this railway, and the pressure I got was just tremendous. The first clashes were with the commercial interests in the former metropolitan countries. They were trying to use the Bank to load these projects onto the infrastructure budgets of these countries. My concern was--and this was where my country program perspective came in--that here you have the beginning of a debt crisis. Even in the Bank they didn't know what I was talking about. Debt? Africa?

I had the same problem later as project director in Senegal and Mali. There was one and a half billion dollars worth of dams but no infrastructure for agriculture. It would have taken another two billion dollars for the development of the canals and for planning the fields for which there was absolutely no provision. The French, the Germans and the Belgians put enormous pressure on the Bank to just finance those dams. And we did not. This required incredible stamina. So 1970-'71 was the beginning of us getting really involved in West Africa, with quite a lot of good will, and supported by a genuine interest on McNamara's part.

KRASKE: You left again fairly quickly after only spending a year and a half in West Africa? How did this happen? Did you look for a change?

THALWITZ: Not at all.
KRASKE: Did those people who were trying to put you on the fast track decide that you had enough country experience?

THALWITZ: No, it sounds arrogant, but at that time I had become some sort of a hot commodity. There is no other way to say it. People on the projects side such as, Baum, Knox and [Robert] Sadove thought I was wasted on the programs side. They kept on plugging, and while I was still out in Indonesia Knox wanted to give me a division chief's job in his department as the head of an in-house economics division that did not make much sense.

Here I was enjoying myself as a programs division chief, working with a man from whom I learned a lot, Chaufournier, enjoying the politics of Africa and Europe, with the World Bank thrown into what was for the Bank a new continent and with a lot of support from McNamara. In fact, I envisaged that I would stay there for five years. I couldn't imagine that I would walk away from this at all, and I didn't miss the projects department. There was enough access to my projects colleagues through the working party system in order to integrate them into the programs work, so I didn't miss them.

KRASKE: And you liked working with the Africans?

THALWITZ: I loved working with the Africans. Today's frustrations about Africa were nowhere present. And there was an elite group of young people in Cameroon and Congo, some of them were French educated, very sophisticated, with suits tailored to the hilt. They were truly elegant and classy. There were a few who had studied in Moscow and who turned out to be the most western. They were not seduced by Moscow at all. In fact, it was--quite apart from East Germany--my first brush with that kind of training. As a group they were sophisticated, quick, intelligent and warm. They were people with whom you could work during the day and go out at night, dance, listen to music, and watch people dance. They would have cultural functions with folk dance, singing, music, and with these sophisticated project managers, I would go from market to market--much nicer than in East Africa which had none of the warmth of communal life that existed in West Africa. Things went wrong later, but during these formative years I liked working in Africa. They were also forgiving of my funny French. They liked McNamara. They liked the Bank as a whole. They loved Chaufournier, who would have long philosophical discussions with the presidents with whom I did not converse until ten years later. Chaufournier would sit with a Secretary a whole night and philosophize about the chances of Africa.

One day I got a call saying that the World Bank has decided that you shall now be deputy director of transportation. It is good for your career, the department, the future, and McNamara knows about it. Chaufournier was strangely supportive of it when I thought he would fight it, and he made no attempt to hold me back.

This promotion was the most boring job I ever had. I was in charge of three highway divisions which was the more boring part of transportation. They were run by old highway engineers.

KRASKE: Cliff [S. Clifford] Hardy?
THALWITZ: Cliff Hardy. [George T.] Mahoney was the nicest of them; at least he would listen when I talked to him about strategic matters. The more interesting thing was the morning meetings where the three deputy directors and the director, David Knox, got together and talked a little strategy every day.

Going back to reviewing highway projects in Ecuador, then in India and then in Portugal was pretty routine. It was the only time since joining the Bank that I didn't have a front-line job and was not associated with something new as I had been in Africa. So I was just creeping along, nicely paid, a nice title, but essentially it was a position that, in my view, the Bank didn’t need.

KRASKE: I suppose it was a matter of quality control and administrative supervision?

THALWITZ: Quality control, budget control, administrative supervision. The recourse mechanism during negotiations when the program department did the negotiations and you had to bring along the project support. Sometimes there were quarrels, so I had to go in on behalf of the director. That was often the most exciting part. Then we began to have country-based sectoral strategies, which was a little better. Kim Jaycox and I shared that regardless of whether it was railways or highways. He was my counterpart—he had railways and ports; I had highways—and there was a third deputy director, Bill [A. F.] Geolot, who took care of administration and financial analysis matters. In short, nothing happened in that year; I was very sad to have left the Africans and the interface between projects and programs.

KRASKE: Was Knox a very inspiring man to work for?

THALWITZ: Inspiring is the wrong word. Confidence instilling is the right word. I liked the man, without ever totally warming up to him. He was reticent and didn’t open up on a personal basis, which you can only understand if you ever met Queen Victoria. He still had this reserved attitude left over from the colonial system. He grew up in Trinidad. He was a very old fashioned person, but entirely trustworthy. Totally and incredibly fair and rigorous in analysis. There is just no way that he would commit a simple mistake in logic. And again I pumped him like I pumped everybody else. I learned more from him than I did from Warren Baum about the rigor of analysis. I was making sure that I would not be caught at the decision point having taken any short-cuts. I knew that Knox would find out. And I adopted this practice which ever since helped me.

There was one problem during that period where Knox, in fact, turned out to be quite good. You must have been personally involved. There was the question of why do we deal with India when it refuses international competitive bidding for civil works? This had become a bone of contention between the programs and projects department. Knox, who was rather accommodating with the Indians without the support of the logic of the argument, was prepared to accept their political reasons. But there was Warren Baum, who was very analytically rigorous, and refused to take into account any kind of political considerations. So there was an almost unbridgeable gap between those two gentlemen and the two positions. It
was the nature of these two men that added to the severity of the problem created by the Indians.

In this situation, I was appointed to lead a mission to India and come up with a report on how this could be settled. I discussed the internal logic aspect of the case which was not totally straightforward because the Indians had one good point, which was the fact that international competitive bidding was distortional because the prices the Indians set didn't reflect international prices--there were too many price distortions to be able simply to use exchange rates in the comparison of bids--and I tried to correct this. I went to Knox telling him that I was struggling with this problem, and Knox helped a lot in logically clarifying the arguments. At the same time, without my asking, he gave me full backing in this jungle of a situation between Baum and Cargill. So I was very grateful. This was the one event that happened in this one year that is worth mentioning.

I wasn't allowed to talk to either Baum or Cargill, and they were watching each other like hawks. I think Cargill had a spy out to make sure that I wouldn't get any advice from Baum, who wasn't too worried because he knew I had little contact with Cargill. So I put my proposal on a piece of paper, and then there was going to be a meeting in McNamara's office to decide whether that should be accepted. I went into the elevator, and there was the equivalent of a president's council, except for Peter Cargill. It was by pure accident that we were all in the same elevator on the way to McNamara's office. Everybody said, “Thank God. Now we have a logical solution to this problem.” And the person who was most prominently for the proposal was [Siem] Aldewereld, whom I knew very little. It was Aldewereld who said that we really have to make sure to get a rational and not a political solution and that we could defend in any other country where there is an underlying problem of valuation and pricing. Aldewereld was quite emphatic when he assured us, “I will support you to the end.”

KRASKE: Aldewereld had to because, ultimately, the conflict was really with McNamara, who wanted to lend large amounts of money to India, and the projects that could carry these large amounts were all blocked by this conflict.

THALWITZ: Now, I didn't really care nor did I even know about this tension between India itself and McNamara wanting to lend a lot. But the point is here was Aldewereld who said that this is a rational proposal that should bring the Indians around, too. We went up into McNamara's office and McNamara, for the reasons that you just mentioned, said, “Well, this proposal is logical, totally consistent, but I think I will not accept it, as it will not carry political weight in India.” I looked over to Cargill, suspecting him of having brainwashed McNamara. Then I turned around, and there was Aldewereld saying, “Bob you're taking the words out of my mouth.” It was Aldewereld who fell in line instantly, not Cargill who could afford to sit back and smile. Aldewereld had obviously read McNamara and knew which side of his bread was buttered. So I walked out of this office and my proposal died. That was the only real event that happened. Then they redid the study and told Kim Jaycox how it should come out. So Kim did the study. He talked to me about it and came up with the proposal to provide a local preference, which finally convinced the Indians to accept international competitive bidding for civil works.

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
KRASKE: I think it was Ernie Stern who was drafted, eventually, to write this all up and put it together. He came up with the idea of splitting the difference--instead of 15% making it 7.5%. That's how the 7.5% preference came up.

THALWITZ: I know. Knapp got into the act, too. He didn't like that proposal at all because it was ignoring the local value added. He said we hadn't done this anywhere else, and we also didn't know what the degree of price distortions really is. So he neither liked my proposal nor the 7.5% preference. But in the end political necessities decided the outcome, and McNamara made his position very clear and accepted the compromise precisely for the reasons you mentioned. He didn't want to be blocked in India, and he went ahead with it.

KRASKE: I remember your mission and your report. Still, I don't remember your particular proposal how to square the circle and how to make things fit. But I remember that you did an exhaustive study of the civil works and construction industry in India, what was wrong with it and what should be done to put these people on a more efficient track. How long did you actually spend in India?

THALWITZ: I spent almost two full months in India, going around from state to state, looking into the books of construction companies. It was at that stage, as the result of this field work, that I thought while the Indians had a logical point about distortions, they really had nothing to fear in the way of international competition. This was the major outcome of my recommendation. It was an issue that the Indians did not have to worry about. In spite of all the distortions of the capital cost, for example, the knowledge of how to organize a labor gangs, without which no foreign contractor could operate and bring to bear his un-distorted or even subsidized capital cost of the machinery, effectively ruled out any foreign competition. The Indians, I thought, would come out on the average 20% to 25% cheaper without even taking into consideration the distortions.

KRASKE: Even if there had been a foreign bidder who somehow came close to beating the local competitors, the Indians would have found ways and means to block this guy. This was all nonsense.

THALWITZ: This was all a political thing.

KRASKE: Well, it was two things. On the one hand, they were a people who as a matter of principle just rejected the idea that somebody should come in and impose this requirement of international competitiveness. On the other hand, there were the politicians who were grandstanding and to whom the very notion that there would be foreign leaders coming into the country, vying, bidding, and contracting, would get all bent out of shape. So it was between these two pressures that the Indian bureaucrats decided that they weren't going to accept our rules for international competitive bidding.

THALWITZ: I learned something through this episode, and I don't know whether one can be proud of this lesson. I went into this issue with the logical training and rigor of the Baums and the Knoxes of this world and I came out of it with the political savvy of the Cargills and the Chaufourniers. I'm not sure whether I liked myself for it.

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
KRASKE: Maybe we can go back for a second. Your education and training were as a general economist. You came to the Bank having already worked in India essentially as a macro economist. Then you came to the Bank and joined the transportation department?

THALWITZ: No, I first joined the economic staff.

KRASKE: Oh yeah, you went to work for Irving Friedman, and then you moved to the transport department. But you learned about being a transport economist in the Bank. Had you any formal training? Did you study transport economics or read any textbooks?

THALWITZ: Nothing at all. Textbooks I read.

KRASKE: But essentially, you just watched what people were doing and how they were doing it.

THALWITZ: When I joined the Bank, I was given a choice to work with DeWilde in Africa, essentially as a macro-economist on problems of industrialization as a regular staff member as distinct to the YP program where I was told that I had a good chance. The reason I chose to join the YP program rather than the somewhat better paying regular job for which I was old enough and had the experience of two years in India was precisely because I wanted to do something that I did not yet know. I was a monetary economist in India. I could have gone to the Fund. I wanted to go to the Bank because it was something I knew less about. I opted for transportation because, in my mind, the Bank was an institution that was associated with investments, that's what it says in its Articles, and I knew nothing about it. So I decided to work either in the public utilities division, in transportation or in agriculture and to learn what I didn't know. I remember on my first mission to look at a port in Calcutta I just kept asking these guys questions until they were blue in the face and ran away from me.

KRASKE: Now on the technical side, on the side of pure transport economics, did you have any gurus like Warren Baum or others who taught you the intricacies of the trade?

THALWITZ: Warren Baum was not a transport expert; he was, in fact, a country economist. The guru that most influenced me as a trained transport economist was Vince Hogg, who studied here in the Northwest, which is one of the places where you learn transport economics. He was a true transportation economist. He had left the field of general economics after six terms at the university and became a specialist. Hans Adler, like me, was a more general economist who had learned the trade, and could teach me where to look for examples and read about methodologies. There was Sei-young Park, a Korean, who was not quite as well versed as Vince Hogg was, but was also pretty specialized. And that was it. The rest of the staff in the department were maybe 180 financial analysts and engineers, and we were four economists to start out there. But what most attracted me was to learn something about activities I had no idea about--I would have done the same thing about power or telecommunications--to go into a port and see what investments get made in a port, why they are made, or to look at transport between two cities and see if they need a railway there, who

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
would use it and at what cost or would it be cheaper to travel on a truck. This was like a new lease on life.

**KRASKE:** Now, the next thing that happened was that there was the '72 reorganization, and that affected you, although you stayed more or less where you were.

**THALWITZ:** I think this has to do with your earlier questions: Why did you go away from the division chief's job in programs? Why was this assignment so short? Why back into transportation that you had done for five years before? I now suspect that a few people in the Bank, Chaufournier among them, had quite intimate discussions with McNamara about what was wrong with the Bank before '72. They thought there wasn't enough country focus, that what the country departments had in terms of country focus was too thin in terms of the true mission of the Bank on the investment side. They didn't tell McNamara that they needed more power, but suggested that he upgrade the country relations function and equip it with a minimum of sectoral knowledge and capacity under a vice president who would not have to go begging to the projects staff. The country departments would have to be staffed with people who will grow deep enough in understanding Latin America or Africa, who would become partners within the same vice presidency, and who would get a closer amalgamation of the traditional programs function with some integration of the sectoral approach. I am pretty sure that the reason why Chaufournier let me go so easily out of the programs function back into the projects department was that I fitted into the post-'72 reorganization scheme where he, the programs vice president, needed projects people with whom he could work.

When the 1972 reorganization came and I suddenly got a call--while on vacation in Spain--from Burke Knapp, who said, “We have had a reorganization. We ask you to be the projects director of the West Africa Region.”

I asked him, “What reorganization? What's a projects director and what's a region?”

He told me that I better come back, so I left Barcelona that same night and had my first good talk with Chaufournier, the new vice president for that region as his designated projects director. He was pretty clear about what he expected. He didn't want me to be his deputy director for projects. He didn't want me to hover over the division chiefs who were true experts, people like Roger Rowe who'd been in agriculture and who were old hands. He wanted me to keep his projects department together, be strategic, and build a bridge to the programs directors responsible for the francophone and anglophone part of West Africa. In fact, that's how it worked out.

**KRASKE:** You didn't know about the reorganization beforehand?

**THALWITZ:** I knew nothing.

**KRASKE:** But you were aware that there were some problems with the old structure, that somehow the Bank had outgrown it, that this tension between the projects and the programs side was unwieldy and required constant interventions at too high a level to really work efficiently?
THALWITZ: I knew that, but I went into 1972 with much confidence that I could make the system work, which clouded my eyes against a deeper organizational problem. My confidence was based on the fact that I could function on the programs side as a programs division chief with experience in projects and that I could go back as deputy director in a projects department and work quite nicely with different regional directors such as Jerry Alter in the Latin America region. On a personal level, with people around me like the Chaufourniers, the Baums, Jerry Alter, the old system seemed to creak along quite nicely. I should have remembered some of the problems we had in Indonesia. In contrast it was relatively comfortable in Africa.

The new thing was that people didn't have to worry about prerogatives too much. Chaufournier was respected without being feared. I didn't have to suffer many of the problems you may have had in Asia. Africa at that time was not suffering as much from the problems of national identity. But when a program director wanted to make a loan at all costs, regardless of whether the financial analysis would give him a rate of return, and decided to ignore the projects people who wanted to mess up his nice country program, well, then we had a nice little fight. I often had those fights with Xavier de la Renaudiere, not with Peter Wright. So what the '72 reorganization did was that it introduced a resolution mechanism at the regional level and spared you from having to go to the president on every issue. So that was good.

KRASKE: Were you involved in the staffing of your department, or was this all presented to you? It must have been a pretty messy affair.

THALWITZ: It was a pretty messy affair, taking apart the central projects department and dividing it up among the regions.

There had been a lot of work on assignments before. I did not have full freedom. I remember that I had 66 positions but when I arrived 45 of these were pre-ordained. There was nothing I could do about it. There were people who spoke French, people who had to have a new region. There were good reasons for assigning about 45 out of the 66 to the West Africa Region.

KRASKE: Was this done by the personnel department?

THALWITZ: This was done by the personnel department. The personnel department had also pre-selected the division chiefs which in the projects department turned out to be very important decisions. I had a last right of refusal, perhaps on paper, perhaps in reality. But I got away nicely. Since I had been both in programs and projects, I knew who had worked there and how it was to work with them, so I had no reason to quarrel with the selection. The only one with whom I had a little problem was Roger Rowe, who was a little resentful. He wanted to be director of a central agriculture department. He didn't like the reorganization which he thought was softening the belly of the Bank, and he already was a little grumpy as a person. We had our problems; he was very much a plantation agriculturalist. But once he recognized the problems of the small farmer, he became very inventive as it showed later.

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
when he was out in Bangladesh. In fact, if you ask me whether the staffing in that department was my staffing, the answer is that it was not for the division chiefs, but I accepted it although I could have rejected it. The rest of the staff selection I could easily leave to the division chiefs to take care of with the exception of one or two persons per division. We started working and things moved very quickly.

KRASKE: Yes, of course, the '72 reorganization was far less traumatic than the '87 reorganization because it took place in an expanding institution, so there were people being recruited all the time.

THALWITZ: I had vacancies to start with, and important ones. I didn't have enough French speakers, and I didn't have enough people with experience in Africa to man a whole projects department. Many people that had worked in the central projects departments and who had one trip to Africa were put in the Africa region on the strength of that experience. So this was not a matter of getting rid of people. In fact, I only know of one case where somebody just outright got screwed, that was Bill Geolot, the third deputy director of the transportation department, who came to work one morning and his office was gone. That was how he learned that he had been axed as part of the reorganization. It was very unfair; he was a substantial man and deserved to be treated with consideration.

KRASKE: Maybe we can talk about some of the highlights of your time as projects director in West Africa. This was the period when there was pressure to build up lending volumes and presumably in a set of countries that were difficult to work in, with institutional weaknesses and lack of skilled personnel. There must have been considerable difficulties to build up the lending volumes and the numbers of projects in the way McNamara desired. How did that affect you, and how did you cope and deal with this interacting with Chaufournier? How did he, in turn, contribute to the resolution of these difficulties?

THALWITZ: You remember that we are now talking less than two years after Robert McNamara had walked into my office telling me to triple the lending. Although this was the third job I was taking on and the third promotion within two and a half years or so, we were still in the build-up phase of the program that McNamara had asked me to develop as the division chief for equatorial Africa alone. Here I had twenty-three countries to deal with as a projects director where I was, in essence, in charge of the preparation and implementation of the pipeline. Yet we were still only in the build-up phase.

I must say that Chaufournier did not pursue a simple numerical objective. He was too sophisticated for that and had enough courage to tell McNamara that he did not want to try certain things in Congo Brazzaville or in Sierra Leone. We designed sectoral strategies for agriculture, and the division chiefs were very good at this because now they could focus on their assigned countries. We designed a big transportation study for the area. We did too little on power but a lot on irrigation. We really put our shoulder to the wheel in education which then really took off—we did a lot of education projects. So I would say we were not up to McNamara's expectations, but we fell short not so dramatically that he would have been really worried. But we could defend the shortfalls by saying it made sense for country or for project reasons. McNamara checked on us; he would check during the country strategy discussions,
and he would often endorse something that if you added it up, didn't make for a quintupling of lending. He really took it upon himself to understand what was going on in places like Chad where he would go, or Gabon or Senegal and, of course, Nigeria.

Our lending certainly expanded. In Nigeria, for example, we had rice production projects with a lot of public financing but what today would be considered a private sector activity. Here I must say we did a lot less than was done in Tanzania, where I think the Bank went overboard, overrating the creditworthiness, the prospective creditworthiness, and the capacity of the state to run the economy in a quasi-socialist setting. Chaufournier and I were much less sanguine about quantity alone. We followed a much more differentiated approach paying close attention to creditworthiness and inter-country relations.

I saw real difficulties at one stage with the Ivory Coast where we lent very heavily, continuing with plantation lending. I went there several times, and then in the Loan Committee, in front of Chaufournier, I warned against this kind of lending. I mentioned that what worried me about the Ivory Coast was the gradual build-up of an overall debt and an erosion of creditworthiness. Now this was not supposed to be my concern as a projects guy, but I felt strongly about it. Here the Ivorians were spending two billion dollars on six sugar plants. I'd seen those sugar plants in Ghana from the projects side, and I didn't think they were going to make money nor would they contribute to the repayment on schedule of the debt that the Ivory Coast was now incurring. Second, I said, there was a problem with the degree of independence of the national administration. Every minister still had two guys with their attaché cases coming out of France. Where the Ghanaians fell flat on their faces making all the mistakes in the world, they did have the opportunity of learning their lessons twenty years ahead of the Ivorians, and they would eventually turn the situation around. And that's exactly what happened. It was much more difficult for the Ivorians to make decisions for themselves and build up their own country.

KRASKE: I guess it was also partly due to the rule of Houphouet Boigny and the relationship that he had with France.

THALWITZ: Yeah, but we had a very different relationship with him than the one we had with the Presidents of Tanzania or Uganda. We were not in his hands, and he was not in ours. It was a difficult relationship. Chaufournier often sent me rather than his program directors off to negotiate the difficult things. Because my French was bad, I could be a little grumpy but I could laugh, and if things did not work out I could be dismissed afterwards as the projects director. I became a negotiator on such critical matters as on sugar in the Ivory Coast. Chaufournier knew exactly what he was doing. He never sacrificed me in the process. He would call me back when it was too difficult. He would even travel with me sometimes. In Senegal, when the question of financing the dams came up and I just would not go along with the proposal, he did stand by me in the end.

KRASKE: To go back to the question, you never had the feeling that you were under unbearable pressures to move with projects that you weren't completely confident about?
THALWITZ: No. Not a single time. When it came down to supporting a sugar project in Ivory Coast in response to the pressure of lending as this was your quickest chance of building up your total lending, I felt totally comfortable in saying this was a lousy project. I felt comfortable that I had a vice president who would let me say this in miserable French and that he would be with me whatever the results were. How he dealt with the powers within the Bank and how he dealt personally with McNamara, I'm not quite sure. But mind you, we found enough good things to do without any pressure, and that's the other side of the coin, things that we were enthusiastic about, so that our lending actually did go up. It went up quite a lot, perhaps not as much as McNamara set as a target, but it did go up. We really did some useful things: when we introduced education lending which was really important in that area, when we went out of plantation agriculture and had small farmers projects such as the rice projects, and when in infrastructure we appraised projects very carefully and rejected projects that didn't make any sense, such as the Pan-African railways.

KRASKE: Thank you very much, Wilfried. This has been most interesting.
KRASKE: Welcome back, Wilfried. Last time we talked about your assignment in West Africa as Director of the Projects Department. Could you talk a little about Chaufournier and how he was to work with? He was at the time your Vice President and someone who, as you described last time, had chosen you to deal with the region’s projects problems. What kind of a person was he? How was he to work with? And how effective was he in dealing with West Africa, a very difficult region, and inside the Bank fending for the interests of his region?

THALWITZ: Roger Chaufournier was a very old-fashioned gentleman, kind, complex, with a lot of consideration for other people. He was able to put himself into the shoes of his negotiating partner or even his subordinates. He had a lot of influence in West Africa because he was open to the cultural aspiration of Africans. They sensed this even if he didn’t use a lot of words. He could spend an entire day with a man like [Ahmed] Sekou Toure and get along famously, even if he didn’t agree with everything that these people pursued.

He also had his drawbacks. One was that he refused to be analytically totally rigorous. Not that he couldn’t do his analysis as an economist. I think that in Latin America he had been much more of a rigorous economic analyst than he permitted himself to be in West Africa. He was very suspicious of the Bank’s notion that things could be quantified, that objectives could be determined with precision. That made him lose some influence inside the Bank. His approach worked alright with Burke Knapp, but later, when Ernie [Ernest] Stem became the Senior Vice President, there was some tension and some disparaging remarks by Ernie about his being too loose. I don’t think he was loose because he could not be tough, it was more of a style that he himself had adopted. He thought it was better for country relations. That made him difficult to handle for the people who kept insisting on a firm answer. I remember when I was Project Director, he would sometimes have difficulties with people like Louis Pouliquen, who insisted, like a terrier, on a provable and demonstrable solution to an issue and who would turn down a request on the strength of their analysis when Chaufournier would have liked a positive answer for political reasons. The other assistant director, Roger Rowe, likewise was very rigorous on the technical side. So there were some difficulties, and I think there was tension, stronger than in any other parts of the Bank. He definitely was more of a human and political Vice-President and quite unlike [Robert S.] McNamara, who liked to quantify things and have provable results. Even under my leadership in the Projects Department, you had people who weren’t so easily given to taking a political situation into account or consider infant industry arguments. So I think Chaufournier lost out a little in the the Bank, especially after Burke Knapp’s departure. Burke Knapp had more of an antenna for that kind of development diplomacy than Stern later had as Senior Vice-President.

This led to some tension between us as well, and when I told him that I wanted to take a sabbatical, not to pursue a particular piece of research but to get a cultural recharging of batteries, to see what people in my own countries were thinking, how they were looking at development issues, he took it up very gladly. He seemed happy that the person on his team
who was clearly the most rigorous, and that was me, was going away for a while. When I came back eleven months later, he tried to pull me over onto the programs side which I had done before as a Division Chief with him, just out of fear that the rigorous control over the Projects Department might take over again when I came back. I fought it and Burke Knapp agreed with me. So I went back into the Projects Department and we got along beautifully afterwards. Perhaps something had happened to me. I was getting perhaps a little more political myself without giving up on a minimum of rigorous analysis. But when I came back from the sabbatical in 1977, Chaufournier welcomed me back into his Projects Department and we had a very close relationship.

**Kraske:** Had there been any particular incidents that demonstrated this tension between Chaufournier and those people who wanted to have more specificity?

**Thalwitz:** Mainly very large public sector investment programs which governments wanted us to support.

**Kraske:** Which Chaufournier tried to promote?

**Thalwitz:** He was too much of a banker and an institutional person to simply say, "Look forget your analysis," but you could sense that he was unhappy to be outright negative and looking for a compromise.

**Kraske:** Was the Gabon Railway an example?

**Thalwitz:** The Gabon Railway was one of them. Then there was an enormous investment of $1.4 billion for two very small countries, Senegal and Mali, to build two dams with obviously no cash set aside for any agricultural development down the line. The dams were being built as a matter of prestige. The Europeans, the French, and under some pressure Chancellor [Helmut H.W.] Schmidt on the German side financed these dams just like they financed the Gabon Railway. I remained tough on this one, and I'm glad I did. Obviously, it led to total over-indebtedness of these countries, even with the very concessional terms granted by the Europeans.

On the other hand, Chaufournier nudged us into things which were not usual in the Bank at the time. For example, he encouraged us to support health investments, and I went along with flying colors. It was Chaufournier's idea that we were getting into too much trouble with these huge investment projects and that some of the elements that were more directly necessary for the people required our attention. I remember the first Mali health project or our looking at institutions of higher learning and at the capacity building aspects of human resource development, long before the word was invented. These were the new fields into which he guided a Projects Department that was much more traditional.

**Kraske:** How close was he to the French establishment? As we know, dealing with West Africa has always required particular interaction with the French.

*Wilfried Thalwitz*

*January 22, February 12 and 28, 1996 - Verbatim*
THALWITZ: I think it was the perfect mix of distance and closeness. He was in nobody's pocket. He was not an insider in that he had lived in the United States long enough, he was married to an American woman, he was not part of the finance administration crowd. On the other hand, he was recognized in France as an authority on an area in which France had particular interests, he understood the political context, so that he could comfortably operate and pursue the Bank’s objectives effectively. So he was truly a world banker with understanding for the French position and the French attitude towards the Bank. He was thus an effective link, who was highly regarded by the French and by the Africans.

KRASKE: Was his relationship with the African leaders one that he had created entirely himself?

THALWITZ: Totally. He came over from another region, looked at the story, started traveling, and opened his heart to them. He was not just representing the European or the French line but was entirely guided by the question how the Bank could help these countries.

KRASKE: Can we talk briefly about the onchocerciasis program? Were you directly involved in it?

THALWITZ: Yes. We had a separate outfit that was run by various people. There was Mark Bazin from Haiti who ran it for a long while. The Bank’s involvement also had a lot to do with Chaufournier’s interest in non-traditional areas, and river blindness was, of course, principally a health issue. There were connections with other agencies such as the WHO [World Health Organization] who were keenly interested; as a matter of fact, there was a large group of donors who needed to be nursed and satisfied.

There was from the beginning the issue of how to devolve responsibility for the program to the Africans. This was very difficult for financial reasons, but I think that responsibility stayed with the Bank too long. We weren’t hard enough on the devolution issue. This was aggravated by a technical issue. The black fly was thought initially to have an incidence radius of 100 kilometers and coverage of the program was therefore designed for the eradication of that fly within the area of its incidence plus 100 kilometers. Later, scientists recognized that the fly could in fact buzz around 500 kilometers, which extended the area, brought in new members, and made it more difficult to deal with the issue of devolution early enough. The program was getting bigger and was being run by international institutions. So this technical shift and the prolongation of it for fifteen years beyond the original design period is what led to what I think was an excessive responsibility by one international institution over a long period of time. It’s like what we discussed on Indonesia--the Bank was beginning to be the government. In spite of all the nice movies that we made, there was this underlying question that was always in my mind, “When does this become an African affair?”

KRASKE: Would you think that the success of the program suffered as a result? Do you think that the final resolution of the problem, which nowadays has been achieved, might have been achieved earlier if there had been greater involvement by the Africans?
THALWITZ: No, my argument does not affect the initial objective. It’s like building a road from A to B or a steel factory. Sure you can bring in experts and money from all over the world and then you have a road or a steel factory. What you don’t have is local capacity for maintenance and for addressing other problems. The same occurred with the onchocerciasis program: we were successful in eradicating the black fly but we did not establish the infrastructure that would prevent a recurrence of the problem.

There was also the issue that onchocerciasis is a very debilitating sickness, but the treatment competed for scarce resources and attention needed for other similarly difficult sicknesses, such as bilharzia, for example, or sleeping sickness. So while there was success and solutions were found, that was not the most important criteria for me. I was concerned how to integrate this program sensibly into the overall effort of the African countries and how to get them to set their own priorities.

KRASKE: But isn’t that also a bit of hind-sight wisdom? This reflects very much the view that we take today, that people have to be involved in the solutions.

THALWITZ: Sure. Quite frankly, I wasn’t important enough at the time. Still, I think, had I been Vice-President, I think I would have been tougher in addressing this issue.

KRASKE: The other aspect, of course, was that the onchocerciasis program was an effort that fitted particularly well the can-do attitude of McNamara, who was then running the Bank and was getting personally very much involved.

THALWITZ: It fitted both his can-do attitude. Is there a problem? Once you’ve identified it, there must be a technical, economic and financial solution to it. It also fitted his often under-represented human kindness instincts. That still doesn’t take away from the fact that it was an important thing to deal with. I don’t think McNamara had to push the region. He didn’t invent it. It was just that a door was open, he recognized it as something that would be up his alley, but it wasn’t something that was imposed or invented by him. He just went along with it and took a personal interest.

KRASKE: Was this already an on-going effort when he visited the region and first saw the effects of this disease?

THALWITZ: It was very small effort and he stepped it up. But again, if there was some stepping up to do, it was also done by Chaufournier, the WHO, Mark Bazin and Peter Wright. So this is not something where a gung-ho President dragged along a reluctant region, it just happened to fit his agenda.

KRASKE: Wilfried, since we’ve referred to McNamara several times, do you want to comment on him at this point? What was he like to work for? Did you have direct dealings with him? How did this work? Do you have any particular anecdotes or stories you can remember?

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
THALWITZ: I was never very close to McNamara. As you mentioned in your own book, he liked to deal with a relatively small group, and I think I was twice removed from that group. It was a very tight group: senior vice presidents, people that he worked with in relation to the budget, and the next in rank were the vice presidents. As project director, I was relatively far removed. It was only when I was acting for Chaufournier that I got into closer contact with him. On some of these occasions, we met with some African presidents together.

But my contacts with him go further back than my time as project director. I think we talked about it when I met him as program division chief. I was quite impressed with him. I was impressed by the clarity of his views and instructions; there was nothing woozy about the man. I was impressed with his engagement. He looked like what I later learned to call an eastern brahmin, and he had a clear sense of putting his own life behind the mandate that he felt so deeply about. I was a little worried, like many others, about his degree of flexibility, and I sensed that Chaufournier was uncomfortable with the straightjacket he felt McNamara was trying to put him into. I think Chaufournier was one of those who moved along with the reorganization of 1972 as a real shaker.

This goes back to the issue we discussed earlier. I think Chaufournier, and people like him, thought there was a bit of an unholy alliance between the rigorous analysts, of which I was one, and their President, McNamara. On some occasions, I did profit from the existence of McNamara when he would come out on my side. This happened when I was in Indonesia and also when I was fighting some of these large investments in Africa. I often criticized the extravagant costs, on average $200-400 million, of the meetings of the OAU [Organization of African Unity], and each time I got an instant and positive response from him. I wasn’t the one who was suffering in my particular function as project director from what the more politically inclined person would have understood to be an unholy alliance between the excessively rigorous people at the top and those in the sectoral units of the Bank. But I began to understand Chaufournier’s worries and, towards the end of his tenure, I was much more supportive of Chaufournier and he of me. If I have to be honest and take on balance what irked me and what I liked: he was one of the better Presidents of the Bank.

KRASKE: You didn’t suffer much from this targetry, from the fact that you were under some pressure to deliver a certain lending program and that quality might have to take a backseat?

THALWITZ: Yes. This was often difficult. In a way, I didn’t associate that so directly with McNamara, although I knew he had come into my office five years earlier telling me to triple the lending within three years. So I had a sense of the targetry in all of this. But we were working in newly independent countries. We had a feeling that wherever you look, there is something to do for the Bank. To me, the idea of expanding lending and to push the capacity of countries governing themselves was not a strange one. In fact, I felt the targetry more in India than in Africa because I sometimes had the feeling that the Indians could look after themselves much better than the Africans could. And, if there was any targetry, perhaps it was a good thing to have targetry for Africa. So again, I didn’t suffer from it beyond occasionally having to say that this $200 million investment for joint financing of a $1 billion investment made no sense—unaffected by the targetry.
But then I had more problems with our politicians than I had with McNamara to whom I could say, "This is not a good investment, let's stay out of it." And he would look at the numbers. There were always some people who would rather not let me display all the numbers, but once they were on the table, concern about the lending targets did not override that analysis. When I said, "This is a bad project," it died. There was no pressure from the top to make it stay alive simply because we wanted to lend that much. We still made enough mistakes.

KRASKE: Before we leave Africa, can you comment briefly on one question. As you know, in the early 1980's, people started to focus on the economic and financial policy problems in Africa. We had the [Elliot] Berg Report and other reports which described in great detail the mistakes that had been made in terms of economic policies by the African governments. Did you at any point during the 1970's when you were involved as project director in Africa, and before as division chief on the program side, sense that this was a major problem and an area where the Bank needed to intervene but didn't?

THALWITZ: Yes. Very clearly. That was part of the reason which sometimes got me into trouble. I cannot claim that I foresaw the need to deal with these problems through structural adjustment lending in support of policy reform, as it later emerged. Nor did I foresee that the whole paradigm would change and emphasis would become export-led growth, reduction of the role of the states, in a way a very liberal concept, which was not the way African leaders approached economic development in the seventies, nor for that matter Indian or Latin American leaders. The mixed economy, the strong role of the state, the subsidies, all of these were generally accepted as the chosen approach to planning.

Where we came across the need to look at the policy element was, first, the question of external indebtedness which had something to do with the huge public sector investment programs and, second, indirectly, the role of the state. I remember when I looked at Cameroon, which was beginning to be an oil country, I recognized that the deficits of the public sector enterprises were approaching the net value of the oil export. So there was a question that I wanted to pursue about the relative role of the public sector and the alternatives to this in the structure of production of a new country. The situation was much worse than in India, for example, where you always had a much maligned but pretty vigorous private sector. This was not the case in Africa.

The overwhelming role of the public sector led us to think about the credit-worthiness and indebtedness problem. The question of emphasis on exports in turn led us to think about what determined the terms of trade of the productive sectors in the economy. When we looked in the mid 70's at places like the Ivory Coast or Ghana, we recognized that here was a plantation agriculture, the revenue of which was used to build up the very same industrial public sector enterprises that then became the source of a growing deficit. You started out by looking at the terms of trade and you recognized that the wrong kind of sector and macro-economic policies were being followed and that there was need for policy change.

Wilfried Thalwitz
January 22, February 12 and 28, 1996 - Verbatim
Another element was monetary policy, in particular the link of the francophone countries with France. It was believed that low interest rates were good for development, no matter what. The savings or allocation aspect of interest rates was totally ignored. We talked earlier about the defective composition of public sector investment programs. We began to recognize that there were white elephants pushed by the suppliers and the planners. There was, in other words, an agenda which began to go much beyond the individual project, but we didn’t have the machinery nor the will to address these issues.

**KRASKE:** I suppose we didn’t have the sense that we had a mandate to pursue these issues so we recognized the problem but decided to stay away and avoid the matter as much as we could by selecting projects that were not affected by the malaise.

**THALWITZ:** It was a lot more complicated than that, because the Bank was not a monolithic organization. If you talk to a guy like [Xavier] de la Renaudiere, for example, who was away, he was a very sagacious man, not excessively complex, but certainly not unaware of trends and problems. I could talk to him as well as to Chaufournier about these problems. I saw this happen in other regions, with Jerry Alter, with whom I also sometimes had these private talks.

The new paradigm which began to emerge simply by recognizing that there was a growing number of problems that went beyond the individual project raised very contradictory reactions by people in the Bank. One group would argue that this had to be outside of the mandate of the Bank as the Bank was an investment institution. And if you are talking about the overall investment program, the role of the public sector enterprises or the terms of trade of agriculture versus industry, you were entering a territory which was so political that the Bank would lose its credibility as a financial institution guided strictly by technical concerns.

Soon, however, we were discussing what would be more relevant instruments, and rather than losing influence, it was a matter of gaining influence. Program lending as a carrot to entice reform was, of course, invented before structural adjustment lending was developed, but now gradually it became attractive for the more politically minded of the Bank managers. And before we actually did some of the true structural adjustment loans in East Africa, there was a fertile field for this kind of lending.

The debate had gone on for five years, since 1975. There was more openness among the politicians in the Bank to explore the carrot side, even at the risk of some clashes, because you had an instrument in program lending that perhaps gave you more influence than buying seedlings as part of a forestry project.

**KRASKE:** Now let’s talk about your sabbatical. You left the Bank because you felt you had to recharge your batteries and reconnect with what was happening in Germany. What did you do, and how did this relate to the Bank and to your later career in the Bank?

**THALWITZ:** Well, if I look back, the sabbatical hasn’t really produced any noticeable changes, but without it I probably would have remained a lot narrower than I turned out to be. I’m not sure whether I would have had the political antenna to be a Vice President or to look
after the Bank's policy and planning work under [Barber B.] Conable. In the mid-'70's, I was a director, still relatively young. My options were to go back to Germany, work there forever like some of my colleagues had done at that time, or recharge my batteries there and look around but still committing myself to coming back for a minimum of three years.

I took with me some of the McNamara ideas and began to test them and gauge the receptivity of the society and the research institutions in Germany. I went to the development institute in Berlin: this was 1975-76. The McNamara poverty speech, I believe, was in '73. I was ready to make a little bit of a propaganda, to take my knowledge, for example, of northern Nigeria, Ghana and Senegal, and see how researchers in Germany, who were making prescriptions for the German BMZ [Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung], would react. I was overwhelmed with the way they had accepted the McNamara line "hook, line and sinker." There must have been some 500 Ph.D. theses that were being written in the institute in which I worked, and I became a sounding board for their ideas and something like a prophet to them. I became rather careful about it in the end, realizing that these guys had swallowed all of these new ideas. I began to suggest that one should wonder how replicable these ideas were, they needed to be related to the macro situation, how was one to deal with the change in the terms of trade which I had observed in Ghana or in the Ivory Coast. But there were people left and right pursuing McNamara's ideas. I expected resistance and questioning and was very surprised by this reception.

Now, mind you, this is a period during which the emerging neo-classical model was being attacked by the ultra-left in Holland, Germany and Scandinavia. They had a lot of debates about the appropriate approach to development in Europe. Various universities in Hamburg and in Berlin were moving away from the quiet debate that we had in the research institute. In fact, the first question I got when I came back was from Burke Knapp, who invited me for lunch and wanted to know what I had done, what the mood was, and whether the position taken by the Bank had put it in some political danger, given the ferocity of the ultra-left attack on the Bank. During the eleven months that I was there, the balance was very much in favor of the Bank, and those who were writing against the Bank were in such a minority that I totally ignored it.

There was some similarity of arguments that I found in Holland, Scandinavia, and particularly in Germany at the time. I had these debates but the ultra-radicals seemed to talk nonsense to me. Perhaps we were a little short-sighted not to respond to this very early criticism and, in fact, wait fifteen years until we got to it when the environmental issues had given greater prominence to the Bank's critics. My exposure to these discussions made me much more open politically; I was much less of a technician there and I think that opened my mind. To worry about the analysis of a railway project was a new experience to me during that sabbatical, and I don't think I would have ever integrated all the social and political concerns in my analysis had I not had the sabbatical. So, in fact, it was a positive experience.

KRASKE: At the end of the year, you were ready to come back. Had you given up the idea of staying there?
THALWITZ: Well, this was a commitment that I had to make before I left. I had a very personal discussion with Burke Knapp, who didn’t want me to go, and I had to promise him that I would stay in the Bank for three years after my return. I never thought of questioning that commitment. It opened up a little more the idea of going back later to Germany, which I had never buried completely, but it’s unfortunate that I didn’t act on it. Whenever the issue came up again, after I had completed my three years, someone would offer me an interesting job in the Bank, so I stayed.

KRASKE: In 1980, you shifted to South Asia which was an area somewhat familiar to you but it was something very different from what you had been doing up to that point in the Bank. How did this come about? Who made that decision? Did you ask for this transfer?

THALWITZ: No. The transfer, I think, was a question of when I would be vice president. By that time, in 1980, you couldn’t become vice president unless Mr. Stern endorsed you, and he only knew me from some very tough discussions on the dams issue and whenever we had very tough Loan Committee meetings. I was acting vice president for five months in ‘79 or ‘80—I think it was still in ‘80—after Chaufournier moved to EMENA [Europe, Middle East and North Africa Region], and no decision was made as to who would be the vice president, so I became acting vice president for quite a while. The decision had already been made that David Knox would take over as vice president. Ernie told me at this stage that David Knox would do well; the way he put it was that he was ahead of me, and I had no difficulty accepting that. I was a little sad, but I knew much more about Africa than anybody else by that time, except perhaps de la Renaudiere, who had his own line. So David Knox came in, and the top managers of the Bank thought that it didn’t make much sense to leave the most knowledgeable person on Africa—where I had worked for ten years—under a new vice president.

I got moved out to an area that had a strange management team. David Hopper was the vice president. I became the successor to [Robert] Picciotto as project director. The idea behind it was that switching to another region may round out the experience that you’ve had before taking the job of a vice president. So I went over there quite gladly because I had lived in India, Nepal; I knew Sri Lanka and Pakistan a little. I also had worked for some five years on the transportation side in India. Although I was no longer familiar with the projects, I knew the mentality of the clients, and I think I began enjoying it right away.

It was a strange management team. There was Hopper, who had his good sides. He was like an encyclopedia, thoroughly knowledgeable about physical and scientific matters, had connections all over the place, but was not a manager. That gave me a lot of freedom. The team was a little skewed at the director level. Mike [Michael H.] Wiehen was the program director, and he was perhaps a little excessively modest. Hopper probably knew that I wouldn’t stay there forever, so he gave me a lot of rope, which I used. I then had to establish my relations with Ann Hamilton, which was not easy. During her discussions I would just walk in and talk about the sectors, the projects, and the priorities. I think it disturbed the program department a little that there was, for the first time, a project director who, unlike Picciotto, was really an expert in the field, who began to have some claim on program lending.
and even macro questions that the vice president had no trouble leaving to us to sort out. In the end, it worked out very nicely and we all became very friendly with each other.

I tried to achieve certain things in our India program which the program department tried to block me from doing. Jean-David Roulet was the Resident Representative in Delhi at the time. I remember going there and seeing the same problem of the terms of trade, a lot of subsidization in agriculture and yet a transfer of resources away from agriculture into an inefficient industry, and the pervasive corruption stimulated by the system of extensive controls. I just went in there, almost naively, and had my first meeting with a Permanent Secretary of Commerce and then with a Minister. I began very philosophically by saying that it doesn't really make all that much difference whether the Bank really has a follow-up investment on fertilizer or an SEB [State Electricity Board] project for power. If you could really calculate the damage done by maintaining this set of policies, the change of which could give you a much better rate of return than any individual investment. I totally failed. I was probably ten years too early in bringing this up. I remember Roulet, who was with me in the meeting but had not quite dared to warn me, must have thought how naive this guy was in trying to change the Indians. Then Ernie went off to Pakistan in 1982 where he was treated like royalty--by that time he had recognized that India wasn't ready for structural adjustment in spite of my naive ways of trying to change it. His visit to Pakistan was very brief; he went for three or four days, left some prescriptions behind, simply called Hopper and told him, “Send a team out there and get a policy reform package agreed.”

**KRASKE:** This was when Mahbub ul Haq was Finance Minister?

**THALWITZ:** Mahbub was Finance Minister then. So a little bit by accident, since I had planned to go there anyway, we sat together, Mike Wiehen, Hopper and I, and worked out what to do in Pakistan. I didn’t select myself to go nor did Hopper make the decision, but somehow I was the guy to go. So I expanded my visit into a program lending mission, and we came to the conclusion that since a full-blown structural adjustment operation really wasn’t possible there, we would pursue the policy through sectoral adjustment loans, and we tried to pick two or three sectors. We had a seminar-type of discussion with the Pakistanis--those who would listen. There was much less resistance against the idea of reform than there was in India. On the other hand, there was much less capacity to develop a relevant program beyond the very thin layer of top experts.

But the idea of promoting any kind of reform in India was in 1982 totally out of the question. I began to recognize that the South Asia region was going to be much more conservative than the Indonesians, who were determined to avoid the “Dutch Disease,” and the Africans, who were already running into enormous external debt and inefficiency problems. I had come to the conclusion that in India, Sri Lanka or Bangladesh, one had to push hard with a lot of courage.

We didn’t even come to any real breakthroughs when we were making project loans to India. I remember the umpteenth ICICI project, which really was quite bare of any conditionality. The battle over power rates with the State Electricity Boards (SEBs), the organization of the power sector, and the lack of competition between generators, transmitters and distributors of
electricity was all very frustrating. The agriculture sector was riddled with subsidies. We had the biggest battles over the question of what happens if India performs well enough in one sector to absorb its IDA allocation, but fails to perform in five other sectors, would they still be entitled to get their entire allocation? The political argument was to make sure that they get their allocation. But there were some, I among them, who would question the wisdom of that argument. Hopper would always waver.

Occasionally we would get tough. No more agriculture lending unless things change or no more SEB projects unless power tariffs go up. Many of these issues went up to Ernie Stern to decide and he also wavered. There was no breakthrough with India, and I was getting worried looking at the turnaround of Indonesia and Mexico. There was the first inkling of Brazil growing, as it did much more to let the export sector grow. Even the Nigerians were talking about using their own money to support the growth of the economy outside the oil sector. But there you had South Asia which was petrified, and I became very impatient with them.

Looking at individual projects in irrigation in India, there too we began to recognize problems emerging. I went to Karnataka where they were having a dam built, and there were maybe 200,000 people who all lived on the embankments of the main canals. They were protesting because there were tree plantations in the higher regions of the area, and I began to get worried about the Bank’s involvement. I talked to Gaby [Gabriel J.] Tibor, our leading irrigation engineer, about dam safety and asked him to go to Karnataka and have a look at what kind of a problem we might have if we were to press on with the Narmada dam. So while there were frustrations about the inability to solve obvious problems, I did enjoy the interaction with the professionals on the Indian side. I also enjoyed working with the good old project types in the Bank, the irrigation engineers and the power engineers, but I never had the feeling of any breakthrough.

KRASKE: What always astonished me was the fact that although we spent enormous amounts of resources on the supervision of our projects, we couldn’t establish mechanisms that would give the Indians a clearer sense of responsibility for their own projects. Did that ever bother you?

THALWITZ: That worked very well in Pakistan and Bangladesh where we integrated the borrower’s side into the resident missions that we had there. I remember in Bangladesh every critical decision that was made in the Ministry of Planning was made in consultation with the Resident Mission, so there was constant interaction. We had maybe thirty people in Bangladesh and thirty in Pakistan who were somehow related to the resident mission either as consultants or as local staff who had their own connection with the institutions they came from, e.g. the departments of irrigation, transport, education etc. We never managed to do that in India as the government was too diffuse. At one stage I made the decision to establish an agriculture division out there because I really didn’t think that we could have effective supervision from such a distance, so I sent the whole division out there. But that had its own problems because there was no agricultural department back home and they went native out there. Some of my successors undid this, but it was an attempt to get closer to the Bangladesh/Pakistan model of project supervision, which was really quite successful. But India, again, was too amorphous, too resisting, too complex, and too geographically remote.
You couldn’t really have one unit as in Bangladesh that could know what’s going on in the different states of the union.

**KRASKE:** Now in 1984 the great moment finally came: you went back to West Africa, and this time was it as the boss of the whole region. Was this something that you knew was going to happen?

**THALWITZ:** Well, nobody ever promised you anything in the Bank, but as I said earlier, I had been given to understand that my time would come in due course to move up. I didn’t expect that they would send me to Latin America. By that time, the Berg Report had been completed and the deficiencies in Africa’s economic and fiscal policies were well exposed. Many of our projects were in trouble, and in ‘84 the first experiments with program lending had already been made. But there was no cohesion, experiments all over the place. West Africa was still an outpost with a few Frenchman, a few Africans, and plantation agriculturists. There were essentially two tasks: one was to move governments to adopt sensible strategies, and the other was to take a genuine approach towards program lending in support of sensible reforms. All that was left, then, was to generate enough excitement in the Bank to attract the people who would willingly go along with it.

My appointment was not an isolated one. Kim Jaycox was sent to East Africa that very same day. We had worked together in the old projects department and got promoted on the same day in 1972. So, in fact, it was a nice feeling having a like-minded guy on the other side of Africa, as we both felt that it would make it easier in carrying out our responsibilities. I remember we went together to DAC [Development Assistance Committee] to attend the discussions of the Berg Report. I enjoyed the challenge we faced tremendously from day one.

**KRASKE:** [Alden W.] Clausen was then the President of the Bank. Can you talk about him a little? Did you look to him as a leader who was giving signals that would guide you?

**THALWITZ:** No. I saw more of him than I did of McNamara but got less inspiration from him than from McNamara. The man looked lost to me and seemed to be completely in the hands of the senior vice president. I remember very clearly the attempts to reorganize the Bank by sending [Moeen A.] Qureshi back to IFC, making Wapenhans the financial man, and essentially Ernie Stern the senior vice president. I remember the endless discussions about the Bank in the ‘80s, which were pushed at that time by Benjenk. I remember the President’s Council, where I would show up as vice president. I felt that the Bank was drifting, that it had lost its political bearing. McNamara had left because he knew that he couldn’t swing the U.S. Treasury, but this was not something that Clausen remedied by the fact that he was a respected banker. All that was very clear to me before I became a vice president. So the decision-making apparatus and also the vision were no longer part of the President’s office. The President struggled with the outside world, especially the U.S. Treasury, but the results of these fights were not really shared with us. We learned little about it.

I went with him on a trip to Africa, one single trip as vice president. I found him, in human terms, to be a sweet fellow. He would tell me stories about his wife packing the suitcase with a shirt for every day. I don’t think that he ever learned to understand the Africans on this trip.
KRASKE: Was he interested in them?

THALWITZ: Yeah, he was interested, but it was a little outside of his world. We had discussions in Africa about Indonesia, and I could see the man understood Indonesia. He had presided over a big expansion of his private bank, and his bank’s engagements in Indonesia weren’t half as bad as it later turned out to be in Latin America. He understood that the Indonesians needed to establish an appropriate macro-framework so that investments could succeed. He had an image of how an Indonesian would respond if given a choice between different policies, what that would do to his incentives, and what the Bank could do to nudge it. But he did not know how this could work in Africa. He did his duty. He went along, he went through the policy discussions, but he was both horrified by the magnitude of the countries’ problems and also puzzled.

I remember in Guinea we were walking through the biggest graveyard of machinery he or even I had ever seen. There was twenty years of development assistance rotting in the fields. You could feed a steel mill with the scrap that was spread across the countryside. We had a few projects in Guinea. We were trying to help them recognize that there had to be some turnaround. The president of the country, after Sekou Toure, was a very kind and thoughtful man who later was murdered. He was a military man who had thrown away his uniform and truly wanted to be helpful. He was confronted with the mess of coming out of the misguided policies following independence, reminiscent I had already seen in Indonesia right after Suharto. Seeing that mess in Guinea, a very active president would have said, “Wilfried, this is not development. There is no perspective, no vision, there is no help possible unless they have a sensible program. Therefore, either we get out of here or we really have a very close relationship with them.” I told Clausen that we do have that choice in the end. His main feeling, I thought, was that he was glad to get out of the country. He did not feel that we could cope with this. Now, it would be unfair if I judged him as a President by that experience. I didn’t know how he acted in Brazil or in India, but I did, indirectly, in Indonesia. There was very little leadership there.

KRASKE: Now you seem to say that the Bank was drifting at the time, but at the same time you had Ernie Stem in full charge, a senior vice president who was really very tough and involved in every decision, who had a system to control what was happening all over the place, and who seemed to have some perspective on where the Bank should go and how we should position ourselves. How do you reconcile these two statements: on the one hand, a President who was not in charge and hence the impression that the Bank was adrift, and on the other hand, a tough manager who was in control and who understood what was happening?

THALWITZ: I didn’t say the Bank was adrift. What I essentially said, with the anecdotes of my trip and of my interaction with Clausen, that this particular President did not feel that he could give a vision and a direction to the work of the Bank in Africa. This happened in some other regions as well. That doesn’t mean that the Bank was adrift.
There were three elements of ferment in the Bank that I recognized very clearly. First, there was Stern leading the Bank into program assistance, on which I had previously worked for fifteen years, and which I liked. The policy-based lending providing freely available foreign exchange to grease the transition into different policies, which would not be costless. That was something that the staff of the Bank began to grasp. This was certainly a movement which was designed to allow us to respond to Africa’s problems. All these overall studies on Africa, first Elliot Berg’s report and then our own work, was feeding straight into changing the Bank from a pure investment institution to one that had two or three instruments. So there was no drift in the Bank, but there was clearly a new development.

Second, it became very clear that the Bank could not stand aside on the debt issue. This was the post-Mexico period, and some of the worries that I had in the ‘70s about the indebtedness of Senegal or even Nigeria—which in the ‘70s had earned $25 billion a year and was building up a portfolio of debt clearly showing that they went overboard—were things that were now out in the open and linked to the whole question external credit-worthiness. The recovery from the debt problems again was linked back to structural adjustment lending. So if anything there was an absence of drift in the Bank: there were new designs.

Where the top people of the Bank were probably the least influential of all was in West Africa. The body of knowledge, the repertoire of indicators that Mr. Stern would have on hand when something would go wrong in Pakistan or Mexico or Indonesia, was not there. The ideas and the prescriptions were there and applicable, but the sense of what could go wrong, when and how to intervene, Stern was unable to determine in West Africa, and barely in East Africa.

KRASKE: Did this have something to do with a language barrier?

THALWITZ: No. There are always two things you need when you want to succeed: you have to have an idea and your repertoire of indicators. Today, thirty years after I started working in transportation, I still know at what per ton kilometer cost I can say that a project is a failure. There are typical indicators alerting you when India or Mexico go wrong. Stern had this list of indicators for Asia, but he had no yellow lights that would warn him in West Africa. He understood the Nigerian’s debt problems, the terms of trade issues in Ghana, and the excessive reliance on plantation agriculture in the Ivory Coast. But that was about it. For the rest, I had to say to him, “I accept your general ideas but I will make the following specific suggestions because I know how things work down there.” This gave me a degree of independence which others did not have. I profited from the relative freedom and was relieved that I didn’t have a “senior loan officer” for West Africa sitting on top of me as we always had when we dealt with India. That made the difference.

KRASKE: Now, you stayed in West Africa happily until 1987. At the time when Clausen left and [Barber B.] Conable came to the Bank, did you have any early encounters with Conable? What was your impression of him?

THALWITZ: The first mention of Conable I heard in Ernie’s office during one of these chats one had as a vice president with him. He had obviously learned who was going to be the
next President of the Bank, and he mentioned the name on the phone not caring that I was sitting there. His first response on the phone was, “Oh! This is very much an inward looking choice.” These are the words he used, and that there is going to be more learning to be done than even the last time.

I then met Conable relatively soon. I liked him. I found him warm, interested in individuals, and honest in admitting if he didn’t know something. Unlike Clausen, who didn’t easily admit that he knew so little, Conable said, “I’m reading and reading here and I’m trying to learn.” We sent him these enormous briefing books before he came. I was a little worried about the people he surrounded himself with. There was a young lady who had worked on the Hill, Judith McGuire, and then there was Bill[William J.] Stanton, the former congressman who was very close to him. Here was a person with whom, it was pretty clear, I would not have the kind of trouble I had with Clausen. I could simply tell him, “Look, I give you a few options, but you need some time to think about them.” But I was getting very concerned about his depth of understanding of the Bank and the increasing bitterness in the relation between Stern and Qureshi. It became pretty clear to me that Conable was going to depend on these two fellows and had to find a way to deal with the struggle between them.

KRASKE: Were you a witness to some of these fights?

THALWITZ: Yeah. As vice president I attended some of the President’s Council meetings. Even with Clausen, the interchanges between Stern and Qureshi were often very sharp. You would have a situation in which Qureshi would stay the gentleman and stay exceedingly polite, taking in the argument of the other person, and Ernie would get very impatient with the apparent evasiveness that was implicit in Qureshi’s politeness. This had started under Clausen. To this day, I do not think that there were unbridgeable differences of view over the basic course for the Bank to follow, which made it doubly sad.

KRASKE: It was essentially a matter of style?

THALWITZ: It was a matter of style, and I must say in the case of Stern, a matter of ruthlessly wanting to be acknowledged as the leader. Stern was not capable of collective leadership. I was on Qureshi’s side because he was ready to put in his two bits and never fought some of the epochal Stern interventions. There were no problems in principle, there were personality problems, problems over relations with the outside, but essentially the struggle was a quest for leadership that Qureshi did not take lying down. He had his own ways of counter-maneuvering. When Conable came, I was getting very worried about a new man being paired up with these two gentlemen and worried about the Bank.

KRASKE: Now the new man, in fact, more or less walked into the Bank and said this place needs to be reorganized. What was your sense? Did you feel at the time that there was a need for a reorganization, let alone one of the magnitude that was eventually instituted?

THALWITZ: No. I was, during this whole debate about the reorganization, a conservative. I tried to slow down Kim Jaycox, who at that time began to take off. He was a little aloof, getting very involved in the design of the reorganization and no longer ready to go back to
basics and question the need for change. I talked to Conable about my concerns, and his reaction was very mild when I gave him some specifics. Some of the same arguments I made were made by David Knox, who eventually got fired over it. I didn’t.

Now, it’s important to say what my concerns were. I had welcomed the ’72 reorganization with the introduction of the country focus, but I was getting worried in the ’87 reorganization when I recognized that the design of the TD [technical department] was no way to maintain the sectoral capacity over more than three little countries. I always knew that there was a balance between country and sectoral concerns and one had to find a matrix way of squaring this. It is funny to see now in the Bank of 1996 the consolidation by region of the sectoral capacity is again a central issue. The contractual relationship between the country management and the sectoral expertise is precisely the proposal I made to Marianne Haug, then Conable’s assistant, and then to Conable himself. Knox said exactly the same thing. I don’t think he said it any more sharply or unpleasantly, but he got axed.

The other concern was that I was already very suspicious of what in the American industry had become known as management by objectives, strategic planning, and the linkage of macro research to strategic planning. I was also getting suspicious of the design of the PPR [Project Planning and Research], which is funny as later on I was put in charge of it. These were my two major points.

A third point, which I didn’t know anything about in the beginning, was the blood-letting that occurred in the process of the reorganization and the particular way that it was dealt with. I didn’t see its relation to the objectives of the reorganization. It seemed there was a separate reorganization on the personnel side by a principle of selection from the top down which made for a lot of bad blood. The effect of this five years later was that we were re-accumulating the people who were in the wrong spot but then our hands were tied as nobody wanted to repeat anything that was done in 1987. In fact, we became excessively soft because we had been so excessively callous in ’87.

KRASKE: Who was the author and the inventor of this approach? This was essentially the implementation part of the reorganization: everybody got fired and then had to be rehired into the Bank in a process very much like the game of musical chairs. Was that Kim’s idea or was it the consultants’ proposal or did Conable have anything to do with it?

THALWITZ: I think it was Kim’s idea. I never talked to any consultants, so I don’t know what their influence was. I talked a lot to Marianne Haug, Kim Jaycox, a little to [Caio K.] Koch-Weser, Russ [Russell J.] Cheetham, basically with the members of the committee that we had to handle the reorganization. I also talked to Conable about it. I think that the selecting back into the Bank was Kim’s idea, combined with an assessment that this required a lot of money, which is where the packages came in. I remember having these discussions with Kim whenever I didn’t really know what mechanism to use for selecting in or out. A lot of money was required to make this painless, and it didn’t turn out to be all that painless.

But my main concern was related to the two aspects I mentioned at the beginning. How do you provide a corporate perspective to the President, to a President who wants change but
knows neither the old Bank nor has a clear idea as to where he wants to take the present Bank? So the need for strategic planning and the loss of the sectoral expertise as the result of the endless splitting of the organization into these small units, those things were, in my mind, much more weighty than the damage that I later learned had occurred later in the process of implementing the reorganization.

KRASKE: Thank you very much, Wilfried.

[End of interview]