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Transcript of interview with

S. SHAHID HUSAIN

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Interview by: Richard Webb, Devesh Kapur
The following is a transcript of an oral interview conducted by the authors of the World Bank’s fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.
WEBB: . . LAC [Latin America and Caribbean Region] in the ‘60s?

HUSAIN: I was initially. I was an economist and then afterwards division chief.

WEBB: You didn’t go to Peru. I was in the central bank then.

HUSAIN: At that time?

WEBB: At that time.

HUSAIN: But later you were president of the central bank also?

WEBB: Later. I was dealing with the--Hans Wyss was . . .

HUSAIN: The division chief.

WEBB: The division chief. That’s right.

HUSAIN: That’s where I was until [inaudible] That was late ‘60s.

WEBB: And [Roger A.] Chaufournier was . . .

HUSAIN: Chaufournier was deputy director just when I came into LAC, but he moved very soon after that [inaudible]

WEBB: You have a very special experience in terms of regions, a cross-sectional view of how the Bank has been operating on the ground in these different regions, and I thought that would be an interesting area to talk about because we have a lot of—for us it’s hard to get an overview of that kind: questions like how conditionality is being evolved over time, cross-country analysis, the kinds of differences one can talk about. I mean, there’s the obvious evolution from projects to the sectors to broader macro analysis. When you were in East Asia, for instance, up ‘til 1980, you were there in . . .

HUSAIN: I was there ‘til ’83.

WEBB: But up ‘til 1980, ’81 or even up ‘til ‘83, did you have much experience with adjustment? Was macro conditionality something that you really worked with even though it wasn’t in a more formal form of adjustment loans? Was it a big part of the economic analysis, the dialogue, an implicit conditionality?

1Original transcript by Brookings Institution World Bank history project; original insertions are in [. Insertions added by World Bank Group Archives are in italics in /]. The audio quality on this tape recording is very poor and in many places the conversation is inaudible.
HUSAIN: Well, let's make a distinction between economic analysis and dialogue and conditionality. It means that a lot of Bank analysis has been on macroeconomics, even before we got so deep into adjustment issues. But my view is that the understanding of the full dimensions of macroeconomic problems has evolved with time. And a typical macroeconomic analysis would have been about balance of payments, external debts, capital flows; a certain amount was domestic [inaudible] balances. When we went into structural issues involving the [inaudible] we did some work about the structural aspects of trade, commodity concentration, the profile of debt and so on. And I did in fact one of the first adjustment loans for the Bank on Philippines and then Korea and a third was on Thailand. The only ones that had been done before that, I think, were Turkey and possibly Kenya. And the answer to your question is that, you know, the focus on macroeconomic issues was not there, and there was perhaps agreement on conditionality, but largely solutions focusing on issues of trade, industry, industrial [inaudible] policy and so on.

But my view is that the understanding of we economists of the macroeconomic issues was not very clear, not just in the Bank but everywhere. It means that we operated two separate planes: the macroeconomic plane and then we shifted a bit to the sectoral plane for the powers that I already mentioned and so on, but we never thought of macroeconomic issues as the sum totals of the operation of governments, and therefore we never focused on what were the constituent elements of the macroeconomic issues.

I'll give you an example. When we talk about government deficits or government surpluses or things like that, we did not carry our analysis to, for example, public enterprises, public impact on the operation of public enterprises on development. We didn't go deep enough into the whole issue of transfers and subsidies and what did it do to the management of the public sector and the government. We did it in some places like Egypt for a time, but not generally. We seldom looked at the whole issue of the sources of goods, which has been a very important issue [inaudible] in some countries, for example in Israel. Management: in Argentina, for example, up 'til 1988 we never did a full, had a full understanding of the operation of the government financial institutions and [inaudible] accounts.

So this wisdom has come with time and has come slowly, that macroeconomics does not float in air but macroeconomics has as its base very deep institutional and sectoral questions and therefore you cannot do institution to any viable [inaudible]. So the answer to your question is that even in the structural adjustment process the link between macroeconomics and sectoral issues has been very explicit and probably has emerged much more in the last two to four years than emerged on such [inaudible] '80s. Emerged on Mexico. For example, and take the [inaudible] We had [inaudible] early in the '80s, public sector early in the '80s [inaudible] until we got deeper, much deeper, into the sectoral issues and therefore deeper into the link between sectoral issues [inaudible] and macroeconomic analysis.

WEBB: That's very interesting. I hadn't—I hadn't visualized that at all: the Bank, as it were, going up to the top, going back down into the structural issues.
HUSAIN: But what had been happening is that we were concerned with structural issues. But let's say we were concerned with a pillar here and a pillar there and a pillar there. And we focused on the pillar, which means we focused on, for example, the functioning of the power company and what did it do to the finances of the power company. We focused on agriculture sector and agriculture prices and technology and so on, but basically what did it do to the agricultural production. But we seldom focused on these as organic issues which ultimately had a phenomenon impact on the functioning of governments and therefore the functioning of the economy. We never focused on the silent preference, which has become a huge issue, actually. We never focused on vested rights and vested interests. We never focused on what the accumulation of these things did to the functioning of governments. And I think we are doing a lot of that today, and we are learning, consequently, that it is precisely because of this that the resumption of macroeconomic management is so difficult, and I think [inaudible] If you look at the sequential plans like the Astral [phonetic] plan and the Chimauela [phonetic] plan and the Verano [phonetic] plan and this plan and that plan and all the failed plans, then you realize that both the government and we had an inadequate understanding of what made for the deficits.

Take Argentina. It was not until two years ago that the Bank started focusing on the administration of the debt, structural analysis, and the Fund did not start doing that until then, either. And yet you realize that in a country where there are only thirty thousand taxpayers, how you can talk of fiscal balances unless you start focusing on the whole administration of the debt ceiling? We did not start focusing on the whole impact of the public enterprises on government operations in Argentina until about three years ago. We did not start focusing on the impact on Argentina of the social security systems and similar things until about a year. So wisdom is slow to come. It has come likely because of the experience of failed assistance programs.

WEBB: Is this learning occurring mostly in the regions? Is PRE [Policy, Research and External Affairs] very involved?

HUSAIN: No, I don’t think that it's only in the regions. Clearly our involvement is much deeper [inaudible] enhanced understanding of the Bank of the fact that when you just talk of macroeconomic aggregates, all that you are looking at is the tip of the iceberg [inaudible] You are not going to understand the whole issue.

WEBB: I guess I have an idea (rather than proof)--you had the pre-debt crisis world and the post-debt crisis, and the way the Bank has to deal with the countries obviously had to change, and it was mostly conditioned by that. And if that were true, then the Bank's dealings today with a country like Colombia ought to look very much like the way it dealt with--I don't know—Indonesia in the '70s.

HUSAIN: Let's say that the pre-debt crisis Bank was totally preoccupied with making loans. I mean, you had sort of two or three pockets of the Bank's concern. One was making loans: the conviction of [Robert S.] McNamara and the conviction of those who had worked with the gap models and so on that the key issue was capital transfer to developing countries, that in relation to their economic potential developing countries were not over-borrowed and that the return to capital was very high [inaudible] problem, so a tremendous emphasis. And that's the time when basically the Bank made the transition from a lending institution to a capital transfer
institution, where you did not just ask whether there were projects [inaudible] that you were supporting, but you basically had an objective to transfer a certain amount of capital to the countries.

The other part of that ethos was the tremendous intellectual ferment between McNamara and [Hollis] Chenery and others, focused on issues like poverty, rural development, urban development, energy and so on. But what used to happen is that particular issues assumed life of their own. Take the last one, the energy issue. I recollect that McNamara sort of looked at--after the second oil price shock occurred in 1978 or something--McNamara would look at what it did to the gap of the developing countries, and he'd say, "Oh, my God. The gap of developing countries is 63 billion dollars. How are they going to manage?" So he was totally preoccupied with this and tears would come into his eyes. Then the Bank was predicting that the petroleum price would keep increasing sort of exponentially in almost a straight line, so total preoccupation with the fact that--what it would do to the Bank and to the developing countries. What it did to the Bank was that the Bank got totally blinded to the liability consequences of the flow of capital. It means that we got so preoccupied with the current gap that we did not stop to ask what would it do to total independence. We did not ask about risk, that with this the entire risk unsettled the burden of deficit of the developing countries. We didn’t ask this sufficiently, sufficiently, in what [inaudible] in mind was just by forming was going to be there, for example, on a country like Pakistan. This was one issue.

Then we were so enamored by the energy issue that we started financing, pushing energy projects like [inaudible] Central. I’ll give you an example. You go to Colombia today, and you will find a large number of huge power projects, dams being under construction, have been under construction for eight, nine, ten years, financed by the World Bank, IDB [Inter-American Development Bank] and so on. Their completion would lead to substantial excess capacity in generation in Colombia. In the meantime these projects have been going on, progress; in many cases institutions have asked Columbia to complete their inadequate finances. So you have sort of these works moving on and yet the debt service of these countries [inaudible]

In Honduras we financed a huge electric power project, a hydro project called El Cajon. Again, only thirty percent of its capacity is being used--we ascribe to market debt service. And on the assumption that the electric power profits are so to be had, well, precisely then these sort of projects are coming in.

But in Brazil we financed and promoted a power [inaudible] project, a substitute for petroleum, and the subsidy on power consumption [inaudible] two billion dollars per year, an important element in the debt adjustment. An entire automobile industry has been converted to the use of power [inaudible] It means that we can ration the gasoline with [inaudible] much better cost to the economy. So these are some of the consequences of the tunnel vision that we've brought to the debt crisis [inaudible] developing countries.

Now, you can say that the Bank has lost all these intellectual leaders [inaudible] years. But probably it is less evangelical, and probably there is greater room for review of the broader dimensions of issues than there were. So what the confirmation [inaudible] played is from an evangelical Bank to probably a more deliberative Bank,

S. Shahid Husain

July 2, 1991 and September 29, 1992 - Verbatim
although the intellectual part of the Bank has decayed quite a bit and needs to [inaudible] probably come across somewhat more introspective and less evangelical.

WEBB: Could one generalize about how, the degree of power that the Bank has, has evolved, the leverage?

HUSAIN: I think the Bank has a lot of leverage and a lot of power, which is not quite indicated simply by the amount of resource confidence in various markets, but this leverage comes from three or four issues: first, by the quality of economic research work that we do, in the sense that we are the only game in town in that regard. There is nobody else who talks to the developing countries that brings to bear on this dialogue the same overwhelming and frightening weight of intellectual power, and that's very important. And today in Argentina there's no step that would take in privatization, many other areas of economic policy, without a substantial input of the World Bank. So one is the sheer intellectual power.

Second is increasingly the intertwining nature of international financial institutions. It means the Bank is tied to IMF [International Monetary Fund]; IMF is tied to Bank; everybody is tied to the commercial banks; so the interdependence of the whole system. Basically financial institutions have ganged up on developing countries; that's what it is. And you have a sort of a monopoly on this point, at least on market solutions. That again means that we're aware policies have a tremendous leverage on countries.

WEBB: Even though at the same time it must cut two ways on the Bank, because now the Bank can't just turn on and off the tap by itself. It has to worry about what...

HUSAIN: No, it still does turn on and off quite a bit. Between 1988, early '89 and late 1990, we did not [inaudible] project in Argentina even though—in Brazil, for example, we have taken a negative reflow of amortizations to the tune of half a billion dollars a year without acceding to pressures for fast disbursing loans. [inaudible] It's a bit quieter, but it still happens.

WEBB: I guess I was seeing that the Peruvian scene is so complicated now, so awkward, so many political considerations come into that.

HUSAIN: Well, basically in the case of Peru, as far as support [inaudible] is concerned, there was no way to support you, for example, without Japan and the United States. And everybody got a kind of pleasure when the U.S. basically, you know, said that it is to finance [inaudible] on the drug issue [inaudible] because here there was the issue of clear [inaudible] and that would not have happened without...

WEBB: There's still no sign of a drug [inaudible]

HUSAIN: But the U.S. is very much in assuming that [inaudible]

WEBB: Yeah, I get mixed reports on that.

HUSAIN: You do? What do you hear?
WEBB: Yes. Well, I was lunching with the number two at the Peruvian Embassy a couple days ago. He's just—he had been talking to someone in the State Department who is rather pessimistic, even though his own boss, the ambassador, was optimistic.

HUSAIN: Why is that? Because they feel that the U.S. is asking for too much [inaudible]

WEBB: Well, my sense of it is that Peru hasn't really bit the bullet with respect to . .

HUSAIN: Has not bitten the bullet?

WEBB: No, with respect to interdiction, the use of sort of massive military force, with American advisors maybe even hidden in the trees but with some degree of involvement—but even just by the Peruvian military. I think the Peruvian government has continued to dream of a solution that would be more voluntary based on substantial American assistance. And that's the picture they dream; that's the political image of the settlement. And I don't see that working. I don't see the American government sucked in there. I don't think it would work anyway. I think the only way is force. So that's just my--I'm a complete outsider on this. I just had a few casual conversations.

HUSAIN: But all I'm saying is . .

WEBB: But in general what you're saying . .

HUSAIN: . . that the Bank is [inaudible] structure of macroeconomic management.

But, you know, there are many Banks now. I think basically right now there are three World Banks and maybe [inaudible] There's a World Bank in Latin America and there's a World Bank in Africa and there's a World Bank in Asia.

WEBB: A lot of money between the three of them.

HUSAIN: And then the World Bank in Europe.

The World Bank in Africa is engaged very much in maintaining, in their very market resource transfers, in convincing donors, probably engaged also in restructuring, supported substantially through adjustment lending, but in a very long-haul question. And clearly that Bank is very distant from the old Bank in Africa, which was very narrowly project-oriented, where a lot of the projects that had been undertaken failed because of the inadequate [inaudible] institution, very poor project concept and a poor understanding of African conditions, management of projects in [inaudible] sectors.

The Bank in Latin America has had some spectacular success in Mexico, Chile, Bolivia, in supporting economic adjustment there, and now substantially involved in Argentina with similar results, trying now to effect the change to a supporting economic growth society, to refocus on the issue of investment but not in the old style but trying to bring some synergies into projects, sector and urban economic issues while keeping in mind the country's structural problems.

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
The Bank in Europe is totally preoccupied with the changes in Europe, Eastern Europe, and therefore coping with traumatic shifts from centrally planned economies to a market economy [inaudible].

The Bank in Asia is closest to the Bank of the '70s than any of the other Banks. You have project lending without any significant policy dialogue, except possibly in Indonesia where you've always had a very, very strong policy dialogue, but definitely not in India [inaudible], not the same, really, as the Bank is functioning in the three other areas.

So in this continental economy, the question is whether the Bank can ever be what has been virtually [inaudible] what is it possibly going to be for the next [inaudible].

WEBB: And how do you see the Inter-American Development Bank?

HUSAIN: I don't know. They are trying to make a big policy statement, but I think the policy statement is highly important to [inaudible]. My view is that policy prerogatives very [inaudible] and I think you have to approach it with humility, because if we look at the record of the past and see how things have ended, the only thing that comes through is how little we knew. And the biggest lesson of the past is the lesson of humility because--look at the energy crisis. Look at the debt crisis. Look at the crisis of governments. You can rationalize everything now, and now you can see how crystal-clear it is.

But to ask these international organizations to practice humility, probably if you advise the developing countries about the [inaudible] So the lesson of the past is humility and how little we know. Even this organization, with a large number of PhDs and so on, if that can be clear, then you cannot be too gung-ho on sort of the game of arm-twisting. And that lesson the Inter-American Bank has to learn. And my view is that the IDB has...

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

HUSAIN: ... the focus [inaudible] by the IDB is not [inaudible]. And I happen to agree that it has got to get back to its roots because it [inaudible] a big gap. That's the prime need in Latin America today, and it should get into that. I don't know if you read an article in Washington Post authored by Jerry [Jerome J.] Levinson, who used to be general counsel.

WEBB: Yes, I did.

HUSAIN: I thought that was a very good article.

WEBB: Good points.

HUSAIN: A very, very good article. [inaudible]
WEBB: That's a logical role for him, to continue.

The sense that I, that one gets is that in the World Bank now a director, a vice president, has to be much more of a diplomat and also a bit of a financial wheeler-dealer, deal-maker.

HUSAIN: No, I wouldn't call it frankly a deal-maker, but it's the way that management jobs--first of all, I think you cannot be an effective legal advisor to the World Bank if you do not have an intellectual base. It means you have to have the capacity to comprehend substantive issues on a very broad scale and be able to assemble and lead a team basically to [inaudible] That's one issue. The second issue is that he has got to be an excellent manager of resources and budgets and so on because ultimately you function in a very constrained environment. And thirdly he has got to be a very fine manager of [inaudible] If you are missing in one of these three, then you better not be there.

I think we do—I personally do very little of [inaudible] My view is that [inaudible] should follow from the basic work that we do. We have not done the basic work in [inaudible]

WEBB: Well, the Fund is taking on more of the deal-making function now. Is that perhaps right?

HUSAIN: No, I think Fund depends very much on the macroeconomic business, but the Fund is a little more vocal now and attaches much greater importance to its relationship with the Bank and therefore to be interdependent, which has led to the economic [inaudible] issues. I think in Latin American countries today the Fund is seen in a better light than it used to be, not because the Fund has changed that much but the understanding of the issues [inaudible] I think that the failure of, failure of structuralism, failure of social doctrines. People have tried everything, and they failed. And basically the lesson that they learned from Chile and then from Peru that ultimately there is no substitute to old-fashioned fiscal contracts. Everything else comes later, but unless you have the fiscal issue in hand, you have no--there's no [inaudible]

KAPUR: The Bank has been now recently on issues of the slightly slippery slope of governance, primarily in the work in Africa. If you look back on your experience in East Asia and the Philippines, I guess at that time [Ferdinand] Marcos was president, how do you see this issue in the framework of those countries and the Bank's involvement there?

HUSAIN: Well, I think they used the right word, that the Bank is on a slippery slope on governance, but I think we have got to be concerned about those aspects of government which affect the economic management, which means the impact of anything on the [inaudible] resource development [inaudible] on the efficiency of the economy, on rent creation [inaudible] And I look back at Philippines, and I was vice president [inaudible] we should have tried to comprehend much more the whole issue
of corruption and how it affected public resources, how it affected \[\text{inaudible}\] resources, how it affected \[\text{inaudible}\] institutions, \[\text{inaudible}\] misunderstood \[\text{inaudible}\]

KAPUR: Were you at all constrained by the interests \[\text{inaudible}\] chairman with \[\text{inaudible}\]?

HUSAIN: Inadequate understanding.

WEBB: You know, I have an anecdote along the same lines. I was part of a World Bank mission to Honduras in 1974. The head of the mission, a Canadian, Lorne Sonley, a very good man, the best kind of banker, technician, practical, and he had worked in all the sectors. This was a complicated mission, and the Honduran government is one of the most--a shambles. They can't get anything done. Nothing seems to happen. He was very frustrated. One day he said, "I wish we were in Nicaragua. When you need to do something, you go and tell \[Anastasio\] Somoza. He gives an order, and it's done." But not very sustainable. It's hard to make those judgments.

HUSAIN: It is very hard to understand that in working \[\text{inaudible}\] dictatorships who have delivered things in the past. After all, Ayub Khan in Pakistan was everybody's darling like that. There was not understanding that when you have strong personalities who are in power too long they ultimately destroy \[\text{inaudible}\] the good institutions. I think that we are comprehending that a little more today, but you know that simply means that our profession, the profession of economics, is like the rationalization of experience. We are better at rationalizing experience, less good in predicting our or my future \[\text{inaudible}\]

WEBB: It makes one worry. What is it that we're not seeing now?

HUSAIN: We'll find out. We'll possibly find out that the freeing of markets and \[\text{inaudible}\] We'll find out that there were inadequate institutions. We might also find out that we didn't quite think of the financing of the newly emerging private sector and how to \[\text{inaudible}\] We might also find out that in this era of unilateralism that everything is done by the developing countries and the developed countries are sitting on their back and enjoying their--licking their chops. I think market \[\text{inaudible}\] unilateral learning of trade values, for example, by industrial countries, like the United States with Mexico and so on, are operating with developing countries in very respective, taking on--which means that the environment of the developing countries, the international environment, is increasingly \[\text{inaudible}\] trade.

KAPUR: When you see these cases of the past, do you still sort of in a way think of institutions to responses to \[\text{inaudible}\]

HUSAIN: Like which ones?

KAPUR: Like, you know, when governments make mistakes, ostensibly in a democracy, the government's out. I'm curious. People have argued about this institution or in general on multilateral institutions that there is the danger that they're not, let's say, responsible to anyone.
HUSAIN: I think we’re terribly responsible to our shareholders.

KAPUR: Right, but the shareholders, many of them, are ultimately responsible to...

HUSAIN: Yes, but the Bank is possibly helping, not with, like corporations. It means that—take corporations like IBM. As long as they do well and they’re moving on, the management is responsible for that because most of the directors of the corporation are their peers. Okay? The issue of responsibility arises when bad times come. Then sort of the shareholders come in; then the directors come in and so on.

I think the Bank is not that different, which means that as long as we do well and don't have anything in red figures, our management has been since McNamara's time like corporations. But as you can see that in the last ten years the shareholders of the Bank have been asserting themselves a lot more, particularly with the G-7 industrial countries, partly because there is a lot of reaction to McNamara, a very, very strong man with his own point of view and his own thoughts who in their view hijacked the institution and sort of used it to wash his own sins of Vietnam, brought a lot of vigor and dynamism but in the process detracting from the, possibly, from the interests and the policies of the industrial countries: “You are the darling, basically, of the developing countries.” So all sorts of things have happened.

Of course they appoint weak presidents. In a row, they’ve appointed two very weak presidents, basically, who are [inaudible] at least from the point of view of the managers. And there is again the power of the shareholders within the Bank is far, far greater than [inaudible]

The current crisis of the Bank, it appears, whether the Bank will sink into the sort of UNCTAD—[United Nations Conference on Trade and Development] UN malaise, which means fights between the industrial and the developing countries at the level of the Board [of Executive Directors]. And as a result the management will need to have, its time is spent much more adjudicating the disputes between the two sides than [inaudible] the countries, and that’s a real danger to this institution.

If you start looking at the Bank's processes even today, then you will find that the large proportion of the processes [inaudible] are geared to internal departments rather than to the outside. So the two biggest dangers to this institution today are precisely (a) that it becomes an increasingly impersonal bureaucracy; second, it loses its sense of its purpose, and it becomes really an international organization which is the arena for the power politics of the industrialized countries.

Now, the weak presidents have helped [inaudible] and the key question for this institution has been the president of the Bank. He can extend a lot [inaudible] of the institution.

WEBB: The way the Bank is interacting with countries, I wonder if that is related to this because—again, here I don't know really how right I am—but the sense that I get is that there's much more of an all or nothing decision with respect to whether the Bank is in or out of a country. Before you used to “yes” to this project or “no” to that project, play around a lot more whether you were in or out. But now the Bank seems

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
to get involved at such a high and general level in terms of the whole strategy that it's either [inaudible] or not. I'm not sure that's right, but to the extent that that's true, that would make it harder to stay out of some of the bilateral political games.

**HUSAIN:** Well, I wouldn't quite characterize it as [inaudible] We are still lending to Brazil. In the '80s we lent a billion dollars to Peru even though you had not satisfied [inaudible] In India we are still lending for projects even though we are not satisfied. In China we kept on lending [inaudible] political backlash due to Tiananmen Square. It's seldom that the Bank completely stops lending to a country [inaudible] but we think much more in terms of core and non-core issues, programs. We find that all but the core programs [inaudible] even when we've cut down our lending programs.

**KAPUR:** That's not a function of a country's size? I mean, China, Mexico, and India are also amongst the largest clients of the Bank. And there's a sense that larger clients have larger clout, so to speak. Is that . . .

**HUSAIN:** No, actually it's very important to these countries that we don't want to cut off our relationship. Colombia, for example, Columbia's macroeconomic policies have not been so creative. Basically you're helping a very regulated, rigid economy; they've kept up [inaudible] so it's not just [inaudible] In Nigeria we've kept on doing [inaudible] from macroeconomic [inaudible]

**KAPUR:** Although that remains the largest client in Africa.

**HUSAIN:** Yeah, but even in small countries we have kept on doing this despite the problems. In Guatemala we kept on trying to make project loans, while we have been much more . . .

**WEBB:** Back in the '60s, '70s, do you think the Bank made a big difference in terms of the quality of projects delivered to lower level, grass-roots institutions; in the government, the way projects are chosen [inaudible] managed. Was there a substantial flow of expertise, technical assistance? It didn't really look like that much from—or was it basically money that was being transferred?

**HUSAIN:** I don't think it [inaudible]

**WEBB:** No? When the Bank lends for projects, it has always spent a lot of money in trying to help countries to put projects, learn to make better project selection, design, manage projects. There was a lot of expertise around projects. EDI [Economic Development Institute] was heavily into that kind of training, but also the Bank personnel that went out would always be teachers, to a large extent they were teachers. At least, this was the story that some people--this is the way some people remember the Bank.

**HUSAIN:** Of course, of course. And missed the Bank.

**WEBB:** And missed the Bank. They missed that Bank because they don't see it [inaudible]
HUSAIN: No, that was the right thing. They expect [inaudible] That Bank arose out of the perception that all of these countries had, was that the basic malaise of economic development was shortage of capital, shortage of the investment base, and therefore projects was the way of formulating really investment programs and so on [inaudible] Second, it also coincided with the interests of our industrial countries.

Sorry, I have an appointment.

[Interruption]

HUSAIN: Can we get together another time?

WEBB: This has been very interesting and very helpful.

HUSAIN: Let's get together again. I'll give you a call.

WEBB: Thank you very much.

[End Tape 1, Side B]
[End Session 1]
HUSAIN: Let me divide the Bank into three eras, which means the pre-McNamara, McNamara, and post-McNamara. This era also coincided with significant changes in the world economy and the politics of the government in the United States.

The first part, especially the era of Gene [Eugene R.] Black, was the era of the predominance of the United States in international relationships. And the Bank was regarded very much as an extension of the concerns of the United States in those years [inaudible] because of the confidence on their part that their interests [inaudible] Bank and there was no attempt even to consider [inaudible] on this issue.

When I came to the World Bank, for example, there was no person from a developing country in higher positions.

WEBB: When did you come?

HUSAIN: In '62. There was not a single vice president [inaudible] at the time.

And clearly the U.S. bilateral interests and the Bank's multilateral interests were regarded as similar if not identical. It was true [inaudible]

But the Bank probably became a truly presidential institution under McNamara, essentially for two or three reasons. First was that he developed the Bank's own philosophy on issues of development and the related issues of [inaudible] development and propagated and very much contributed to the emergence of the Bank's personality, not simply [inaudible] on development but he talked about development. This meant the issues of poverty, rural development, urban development, the concern with oil prices and so on.

The second aspect of multi-lateralization, true multi-lateralization at that point, was that McNamara, because of his personality, was able not simply to articulate the Bank's philosophy but to project it and so on and project it externally, and he did it extremely well. Thirdly, his personality was such that he took great pains to travel to developing countries, spent time with them, developed personal relationships with leaders, and there was a conviction, a growing conviction in the developing countries that the Bank [inaudible] trust. It was home-grown, that developing countries [inaudible] and they saw this institution as a reasonably reflective institution in terms of interests of the third world.

And the third world saw—that's the time when a number of people from developing countries were given higher level positions in the World Bank, positions of influence. Mohamed Shoaib came in as vice president under Eugene Black and in the George Woods period he stayed on. But I became vice-president in 1974; Mahbub ul-Haq came in as the head of the policy planning department; others had promotions, and [inaudible] institution, to change the perception, to change the [inaudible] institution.
Then the reversal or partial reversal since McNamara left came from three or four other factors. First was the debt crisis and basically the tremendous preoccupation, in particular in terms of the countries of Latin America, with the debt issue and sort of their perception as sick people, sort of a personality perception. The second one was, of course, the incoming Ronald Reagan administration, which was extremely suspicious of the World Bank. I went at that time to see the assistant secretary in the Treasury for international financial affairs. He said to me, to my face, that the Bank was a socialist organization because it was felt that we wrote off governments and the strengthening of governments is a little bit [inaudible] And a lot of nervousness within this institution about the relationship with the United States. In Britain you had a conservative government at the same time. And the coming in of a president in [Alden W.] Clausen, who did not have the strength, the intellectual strength of McNamara nor the sort of relationship, independent relationships with the leaders of the world that McNamara had, developing countries which would help maintain the identity and the personality of the Bank that McNamara did. And we started seeing tremendous--the interference of the United States and others, but particularly the United States, with the day-to-day running of the Bank.

I’ll give you a personal example. In 1983 I took over as Vice President of the World Bank for Operations Policy. And the debt crisis was there. We did a lot of work on the external debt issues, and our conclusion was--and you remember that at that time the Bank was saying that this was a liquidity issue, it was not a structural issue [inaudible] And so I put in process research for an analysis [inaudible] We wrote a paper in ‘84. We did a lot of quantitative analysis [inaudible] It showed very conclusively that the issue was not a liquidity issue, but it showed, for example, that the debt crisis on a country like Cote d’Ivoire [inaudible]

At that time Chile and Argentina were [inaudible] debts. Our management was so concerned about U.S. trade resolutions [inaudible] and in terms of the [inaudible] debts and [inaudible] discussed it, first of all, in the consultative council and then the report [inaudible]

If you look at the contributions of the Bank on the debt issue, it is very clear that the Bank was not a leader on the debt problem because constantly being told by the Treasury about what the Treasury thought about the debt problem, how it should handled and [inaudible] which means that the same issue on debt that we had [inaudible]

This is what happened [inaudible] in every issue, in issues like sector issues, issues like [inaudible]; that unlike McNamara period the Bank’s attitude towards debt was much more an indication of the concerns of investor institutions than of the internal [inaudible] of the issue. So that’s what I’m talking about [inaudible] institutions: a fragmentation of our policy, fragmentation of [inaudible] and basically our policy [inaudible] of the concerns of our largest shareholders [inaudible]

KAPUR: And that’s true, I would say, of the largest shareholders. Now, what did you tell some of the other G-5?

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
HUSAIN: Well, it also happened at the time when the G-7 basically got their act together in terms of their relationship with the Bank. I mean, for a while nowadays they’re coming apart again, but yet for a while there was a lot of coherence on those issues, particularly of the United States and Germany and Japan. [inaudible]

So there were many issues that contributed to the weakness of the developing countries and the decreasing quality of their representation in the Bank’s Board. [inaudible] the increasing coherence of the policies of the industrial countries, particularly [inaudible] G-7.

And lastly I think the dismantling or partial dismantling of the [inaudible] institution, but I think that despite [inaudible] the Bank in the Clausen period, the whole project that was led by Chenery [inaudible] and selected into operations, and then the second reorganization that [inaudible] fragmentation and bureaucratic [inaudible], and thirdly, I think the selection of the presidents, ineffective [inaudible]

WEBB: Just to get one thing straight: this report, was that one that Fred [Frederick Z.] Jaspersen worked on?

HUSAIN: No.

WEBB: That’s a separate report?

HUSAIN: That’s another report. I am sure that there will be a copy in the files. Fred Jaspersen was back here, but this was led by the Operations Policy Staff.

WEBB: I hadn’t heard of this report at all. I think it was before Jaspersen’s report.

HUSAIN: There were two reports. First of all, a summary report was done in the summer of ’83, and I presented the conclusions to a lecture of the Bank’s [inaudible] and then sort of after this, particularly of Anne Krueger [inaudible] It was heavily criticized by both Ernie [Ernest] Stern and Anne Krueger, who [inaudible]

WEBB: Anne Krueger really thought that?

HUSAIN: Yup. It was totally political. She had not [inaudible]

WEBB: She was being consulted. I mean, I can understand Stern was, but [both speaking at once]

HUSAIN: Yes, but I suppose part of the whole issue was I think what you can see after—well, one wonders—their concerns. By this time you have [inaudible] the Bank’s [inaudible] and therefore how to avoid the demands that the strategy was associated with [inaudible] It’s entirely possible that they were being, making a tactical judgment [inaudible] And frankly, no [inaudible]

WEBB: And still as you say [both speaking at once]

HUSAIN: Let me see if I can get hold of a copy of that report.

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
WEBB: Well, but then, going beyond the interpretation, the Bank's operation became strongly directed by [inaudible] and by the U.S., by the Treasury's battle plan, as it were, concentrating on Mexico.

HUSAIN: Well, initially they were linked to these figures in the agreement. And in the initial adjustment loans the only one that has possibly survived conditionality and were [inaudible] Only in the second half of the '80s [inaudible] do we see the true contribution of the World Bank [inaudible] sectors [inaudible] So it took time. It took time to develop the sort of understanding of institutions and test the propositions in real life situations.

But if you go back, the relationship between the U.S. and the Bank, principally in the period that McNamara was in charge here, and by the [inaudible] then you can clearly see that the Bank at that time also was [inaudible] the question and tremendous attempt to [inaudible] the details of the Bank, link between public goods and private sector analysis of the [inaudible] and basically move the actual approval of line-by-line [inaudible] Directors, [inaudible] holding the IDA hostage to [inaudible] to discussion of actual spending. So there have been some instruments. IDA had these IDA replenishments [inaudible] setting up bi-lateral [inaudible] IDA, whether it was IFC's capital increase [inaudible] Bank's operations, thereby [inaudible] issues.

KAPUR: Do you see a kind of link in the '60s and early '70s, seeing as there's this whole issue of expropriations. And in that case it was physical assets. In the late '80s it was financial assets. And again it was, for example, the U.S. and Peru, France and Algeria, but mainly the U.S. It was more confined to Latin America, although it was Zaire and Belgium also. And I'm sure you must have been aware of that at that time, and the Bank was very reluctant to lend because of opposition again from the U.S. Do you see it as . . .

HUSAIN: Well, expropriation was [inaudible]

KAPUR: Except that the Bank did lend.

HUSAIN: We did not lend. In Latin America there had been expropriations, I know, that there were also during the '60s. It was a minor irritant. We used to get letters from [inaudible] that the situation on the expropriation of [inaudible] It didn't immediately affect our lending. And yet it was written in our policies. But I cannot see how it led to the situations [inaudible] not have something. The Aswan Dam issue. For example, the mediation in South Africa [inaudible]

WEBB: Was it one of the reasons for not lending to [Salvador] Allende?

HUSAIN: No, I don't think so. I remember I talked to McNamara in those days, and he told me that he genuinely had tried to work, but that this was a domestic economic plan [inaudible]

WEBB: Peru was interrupted for a while on this.

HUSAIN: Peru was, yes, yes. That was basically because of [inaudible] situation.
WEBB: I wonder--sometimes when I think of U.S. influence, I wonder--it seems that the U.S. is [inaudible] to being the ogre, but that the reasons that you developed so well, I mean, McNamara was able to create a sort of space around the Bank, but that that went with a certain amount of understanding. In other words, McNamara was very close to U.S. policy.

HUSAIN: He was very astute. But, you know, it's interesting about McNamara. McNamara looked at an identity between the U.S. interests and the World Bank interests in a strategic way. It means that his view came from his geo-political view of things. He felt--and basically he was a cold warrior. He was a cold warrior, but as a cold warrior he was not a [Henry A.] Kissinger type of cold warrior, but he went beyond that because he also saw that the issues of poverty and hunger had something to do with violence. You remember his famous speech at MIT [inaudible]

WEBB: [inaudible]

HUSAIN: And whenever I talked to him, you could see that. For example, his tremendous concern even before he came to the Bank about poverty and about [inaudible] about others.

He told me that the first weekend he arrived at the Bank, he came in and he took a graph paper and put in the left hand column every country in order of population and in the right hand he put the cumulative Bank lending. And two countries stuck in his eyes, Egypt and Indonesia, where the Bank had done no lending. Egypt, which had done that famous loan for the opening of the Suez Canal, but beyond that [inaudible] And he was very much concerned about Indonesia, again from Vietnam days, East Asia and so on. And he immediately focused on these two countries. It led to a huge program in Indonesia and a Bank mission in Indonesia and so on, and in respect, this large, strategic country, its economic development had to be looked on.

So McNamara's concern with poverty, while it was an extension of his geo-political concern and was a strategic concern, day to day he was not prepared to submit the Bank to the U.S. pressure in a very overt way. He told me of two instances about this, one in which I was personally involved. He told me that in 1971 during the India-Pakistan War he was under great pressure from the State Department because they—[William P.] Rogers--to stop an agreement. And he said that once he heard from Rogers, he said back to Rogers, “You don't [inaudible] it up any country. We can't do that.” The second was the incoming of China in 1980 when he personally led the mission to negotiate with China with tremendous opposition from the U.S. [inaudible] negotiate with China and came back and [inaudible] My view is that if he hadn't done it, it wouldn't have happened for a long time. So these are the two personal things I know of his working despite the U.S.'s interests. So he did see the identity of the U.S. interest and the World Bank's interest in a strategic sense, but he was not prepared for the day to day submission of the Bank.

KAPUR: Why did he cave in on the Vietnam [inaudible]
HUSAIN: I was very deeply involved on Vietnam, and—I have a piece of paper which has . . .

[Interruption]

WEBB: You mentioned Kissinger. We've been puzzled by his closeness to Kissinger. Do you know where that came from?

HUSAIN: He told me that, McNamara—I don't think you should quote me on this—but he told me that whenever he had any difficulty with [Richard M.] Nixon, he would call Kissinger, who would solve the problem. He had a tremendous regard for Kissinger's personal qualities.

WEBB: I think Kissinger also helped with the reappointment. Is that right?

HUSAIN: Yes, he must have.

WEBB: But you don't know where it came from?

HUSAIN: It must have come from the pre-Nixon days, I'm sure. I'm sure that it must have come from his days as Secretary of Defense while Kissinger was [inaudible] on foreign policy issues.

WEBB: I mean, one way to interpret it is—I was reading this article in the Post about the letters between Albert Schweitzer and Albert Einstein, and Schweitzer is saying, “Well, isn’t it interesting. They always talk about us as the two Alberts.” They were both [inaudible]. There’s something like that with Kissinger and McNamara, and I wonder if they were sort of conscious of that.

HUSAIN: Their sort of historic [inaudible]

WEBB: Yeah. Very few people in the U.S. at that level had the sense of the rest of the world, as Kissinger had. It would be interesting. They could talk about Mrs. [Indira] Gandhi and [Anwar] Sadat with no [both speaking at once] Maybe that was . . .

HUSAIN: McNamara, he knew them personally. I once asked McNamara sort of [inaudible] who had a gift [inaudible] He said John Kennedy. I said why. He said John Kennedy had such a great understanding on a variety of issues. I think the second one he said was the Shah of Iran.

WEBB: Really?

HUSAIN: Yeah, he said to me that personally he had such great admiration for the Shah of Iran because [inaudible]

KAPUR: Was that before or after the Shah threw the Bank out?

WEBB: What I was trying to, beginning to get at before when I talked about McNamara, I wonder—to be a bit of a devil's advocate in regard to the interpretation—

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
whether some of this was apparent, some of this space or independence, maybe whether there wasn’t, because he was so American, so close and sort of on the same wavelength, that a lot of things could be done without, with no visibility, just sheer understanding in conversation, so that in that sense maybe there was a little less; whereas in the ‘80s, I wonder whether a lot of the U.S. pushiness is really more minor, sort of more overt, bothersome, but is there a structural situation where . . .

HUSAIN: I think that in the U.S. there was a real transition from internationalism.

WEBB: Put it another way—excuse me—to try to explain it a little, isn’t the Treasury very frustrated? Do think they are frustrated by the Bank, by the fact that they haven’t gotten more from the Bank [inaudible]

HUSAIN: I have two or three explanations. One is just the change in the U.S. [inaudible] because basically the whole Democratic era and the Nixon era in the United States was very much internationalist. It was an era of confidence; it was an era of U.S. political stability in the world, but also an era where the international relations, relations with developing countries were an integral part of Cold War, and the economic assistance, whether it was any part of [inaudible]

I think that the Reagan era was an era of pulling back, of getting back to the very old Republican type of isolationism. They also had confidence that all that mattered was [inaudible], hence the tremendous accent on [inaudible] of expenditures, a certain amount of disdain for developing countries, also a [inaudible] for what was perceived to be the tremendous power of OPEC [Organization of Petroleum Exporting Countries] since in 1973 to 1988 [inaudible] and the variety of the developing countries as beholden to OPEC, the whole rhetoric of the new international economic order and a very conscious attempt to sort of destroy this, what they would have regarded as illegitimate increase in power of the imposters, the Arabs, the OPEC peoples, and of course the developing countries. And they saw the World Bank as an instrument because the World Bank had not decried against OPEC; they explicitly condemned the World Bank for it. They have seen the World Bank as an instrument that [inaudible] very deliberate desire to sort of get rid of that legacy, that heritage, and sort of to cut the Bank down, and I think a very explicit, conscious desire to control this institution day-to-day. I mean, they were, they said so, that McNamara had taken the institution out of the control of the U.S. and there had to be a roll-back. So that’s that frame of mind. [all speaking at once]

KAPUR: [inaudible] What is that . . .

HUSAIN: This is the basic [inaudible] Take a look at the other notes [inaudible]

KAPUR: Right. I [inaudible] reference on them.

WEBB: I have the sense--well, the . .

HUSAIN: [inaudible] Have you been given access to all the files?

WEBB: Everything, yes.

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
HUSAIN: Do you want a copy of this?

KAPUR: That would be . . .

HUSAIN: It is one of the most significant things that has happened. One really has the whole [inaudible]

WEBB: Go ahead and make a copy it. '79. So it's a note to the file?

[Interruption]

KAPUR: Because I thought that—I mean, going through the file I thought that McNamara gave in shortly after Vietnam on the PLO [Palestine Liberation Organization] issue, in the annual meeting that was in—'81?

HUSAIN: In '79 in Belgrade.

KAPUR: In '79, right. I mean, it's quite clear, even if you have the [Robert D.] Muldoon Commission report and so on, that the Bank— you know, the voting tally was the first time that all the governments voted on this issue in the Bank, [inaudible] issue. It closed the . . .

HUSAIN: Well, McNamara always asked how would it have hurt or not helped the Bank. I think he was seriously concerned that if the PLO were seated as observers it would lead to such a backlash in the United States that it would destroy IDA. And he was not prepared to do that. He was too committed and at that point in particular to the development of India and Africa that he probably would have given almost any chance to save IDA.

KAPUR: Has IDA been for long dealing with the fact the Bank without [inaudible] being the one source? With each, every IDA replenishment increasing, there are more . . .

HUSAIN: More open issues, more sort of things that are coming up?

KAPUR: Right.

HUSAIN: Yes, it is. It is. A principal instrument, I think, for introducing the [inaudible] The sheer fact of its being in Washington, the sheer fact that the U.S. has tremendous possibilities for day to day [inaudible]. For example, about a year and a half ago the Brazilians were sort of dragging their feet on negotiations with commercial banks. The U.S. wanted the Bank to stop its [inaudible] and was becoming very, very concerned about the terms [inaudible]

KAPUR: I thought at some earlier point they had done the reverse, which was to persuade the Bank to lend sort of faster to [inaudible] Latin America, sort of commercial [inaudible]

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
HUSAIN: Yeah, but it has changed now. It's a very--on Brazil it has been sort of--
I mean, the government of Brazil has changed. About a year and a half ago they were
very insistent that [inaudible] stop and [inaudible] negotiate [inaudible]

WEBB: Did the Bank have any kind of a position—it must be around the mid-'80s--
commercial banks were requiring debtors to nationalize, private commercial banks.
This became a big issue in Chile that was fueled and reversed itself; it went along but
it gave in to the pressure. In other words, the Chilean government . .

HUSAIN: The private debts?

WEBB: Yeah.

HUSAIN: The Fund was much firmer on that than the Bank was.

WEBB: The Fund was. Defending . . .

HUSAIN: Trying to persuade Chile not to nationalize the private debt.

WEBB: Is that right?

HUSAIN: [inaudible] talk to Chileans and say [inaudible]

WEBB: Would there be any traces of that kind of position?

KAPUR: The commercial banks were trying to deal more broadly in Latin America
at the time.

HUSAIN: Well, you mentioned [inaudible] Chile and Mexico they nationalized the
banks.

WEBB: In Peru they did, too, before Alan Garcia.

HUSAIN: Yes, [inaudible] Latin America strategy is so obvious. I think lending
[inaudible] and I think the Bank lent to these private banks on the select occasions,
actually. I think that was an important role.

WEBB: Well, sovereign debt is—in some countries risk didn’t exist.

KAPUR: You mentioned that in the case of Brazil you had two later encounters
[inaudible] And it seems, going through all the files of the ‘70s and ‘80s, the absence
of Europe is quite—I mean, it’s fairly conspicuous, almost, their absence: German
interest in the Bank, the French were very narrowly focused on Francophone Africa—
is that right?

HUSAIN: In the ‘70s the Germans were always very supportive, no questions asked.
[inaudible] The Germans were totally [inaudible] the Bank. The French were very
much [inaudible] You are right. The famous dual tracks. And I said the Bank’s, the
Bretton Woods vision of the institution totally [inaudible] captivated the Europeans
[inaudible]

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
KAPUR: But the ‘80s?

HUSAIN: Very different. McNamara was gone; they were also facing bilateral problems. Basically right-of-center governments in every country: Britain, Germany, here. And their political line was actually--and as I said, they were sort of: “McNamara was a kind of rogue elephant that ran away with it.” A clear desire for [inaudible] the institution.

WEBB: There is something in the nature of a coup, really, in the way things have changed here right at the top: [inaudible] Clausen, Krueger. Could you [both speaking at once]

HUSAIN: I’ll give you an example. We had a very carefully negotiated agreement with China that on the World Bank documents Taiwan would be referred to as Taiwan rather than China. And then the [inaudible] and Clausen came. And one of the first acts of Clausen was to have that changed, because the Taiwanese were becoming [inaudible] and it was changed by almost the very first week of Clausen to Taiwan/China not Taiwan [inaudible] A little thing, but it was a major political issue at that time. [inaudible]

WEBB: Steel, there was an intervention by Clausen in the steel industry. . .

KAPUR: That was [Barber B.] Conable.

WEBB: Oh, Conable.

KAPUR: When I was looking at the way the Bank has tried reforming—it seems in the case of India they could not get reform going [inaudible] so the strategy was sector approach, I mean the industrial sector, cement and so on. And in ’85-’86 they had, with the new regime in India, negotiated a set of key loans for steel. It was all public sector [inaudible] And then one suddenly sees this thing of Conable saying no.

HUSAIN: Conable said that.

KAPUR: And it’s very rare for a, the regional vice president—in any case, that would be my assumption—to agree to a set of [inaudible] And at the same time I first thought that maybe there was public sector reluctance. The Bank was continuing to lend to China on steel and Mexico. Conable had made it clear that he was very worried about surplus capacity [inaudible]

HUSAIN: Ultimately the Bank stopped lending for any steel loans. Conable was very susceptible to Congressional pressure, day to day Congressional pressures.

KAPUR: That was clearly one which he himself personally was . . .

WEBB: With Clausen it was more of the Treasury pressure? Did Congress have much access to him?

S. Shahid Husain
July 2, 1991 and September 29, 1992 - Verbatim
HUSAIN: Well, he didn't have probably as much access to Congress as Conable had, and much more to Treasury. But in Conable's time the balance—at least until David [inaudible]

WEBB: Conable almost winces every time he mentions [David C.] Mulford's name.

HUSAIN: [inaudible]

WEBB: This has really been helpful. Thank you very much.

HUSAIN: You can use it [refers to document] but after you use it, keep it to yourselves.

WEBB: We will, we will, just the two of us and John [Lewis].

[End Tape 1, Side A]
[End of interview]