THE WORLD BANK GROUP HISTORIAN'S OFFICE

oral history program

Transcript of interview with

EDWARD Y.K. JAYCOX

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Interview with Edward Jaycox  
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Q: We were just getting into the '70s last time and we'd talked a little bit about the reorganization of 1972 and you have given us your insights into that. I want to ask about the oil shock that followed in 1973 and how that affected you in the Transportation Projects Department.

A: Well, I don't really remember that oil shock very distinctly. Certainly it impacted on transportation. Energy savings were suddenly very important. There was increased justification for railway transport, and since I had just been Railway Division Chief, I found that an interesting phenomenon. But, what I remember most about the oil crisis was the growing interest and discussion of recycling of petrodollars. This was not much of a sectoral issue in transportation. The main thrust on this issue was from McNamara and from others around him, the macro economists seeing the need to recycle these very large surpluses that were building up back to the developing world so they could in fact restructure and change their priorities in investment
as well as production. So this was all a little bit above the
Transportation Department's purview, but as a member of the
management of the Bank by that time, I remember this topic as
being a very important issue. I was working with Warren Baum
in, what did we call it then? CPS or OPS. I was the Director
of Transportation for about a year and I hated it. I was out
of the action. I was off the line. I was no longer having
direct contact with customers.

I was dealing with quality issues, reviewing other
people's work and trying to maintain communications between a
now highly-decentralized Transportation Group. The transport
people were all over the place. They had their own line
managers and were now answering to their regional management.

Q: They must have been really upset by this.
A: Well, they weren't, no. They didn't seem to be
nostalgic about the past at all. Maybe, most of the people
who might have felt nostalgic were with me, and we were the
ones that were on the outs. It was really not a pleasant
experience. Even though I got promoted in the process, I
must say that it was not pleasant. There were a lot of
managers who lost their jobs and ended up in advisory positions. And they were some of the more experienced old-hands who should have been advisors and not managers. But they never accepted that and were demoralized. I'm thinking of Jack Carmichael, and Forbes and Cliff Hardy in Highways, for example. They ended up with me, and we were trying to maintain the flame of creativity, innovation and esprit de corps. We were demanding the economic analysis techniques which we had put in place in the earlier period. And this was all seemingly just like the sands of time running away, while the real activity was in this new country-oriented or regionally-oriented part of the organization.

Q: Right.
A: I was not unsympathetic to that, actually. I'd always felt that country orientation was correct. But, we were definitely in a time of major transition, and for the individuals it was very painful. So I complained a lot, and I wanted to change jobs almost immediately. I was offered, or thought I was offered the job of Mission Chief in Nairobi. Bernie Bell was the Vice President for Eastern Africa in
those days, and I struggled with this. I wanted my wife to come, but she had just gone back on the job market, and nobody in the Bank would have anything to do with worrying about whether your wife would be able to be gainfully employed. They wouldn't provide any help at all. This made my wife extremely angry, and me too in the end. And so I decided not to go. The fact that my father was dying confirmed my decision not to go. What should I do? So, I took over the Urban Projects Department, partly because I was unhappy and partly because Bob Sadove, for all of his other wonderful strengths, was certainly no manager. That department was in terrible shape, so I was asked to go in, take it over and combine it with Transportation. So I had a whole new focus and I was mesmerized by that because that was a real mess and a challenge. I must say I was not worrying about the oil crisis nor was I worrying about recycling petrodollars, although we learned what that all meant eventually. When McNamara made his '73 speech on Poverty in Nairobi immediately everybody wanted to climb aboard that bandwagon. Of course we did in Urban too, we wanted to talk
about urban poverty as opposed to rural poverty. But initially, poverty was narrowed down to a rural phenomenon in that speech, if you recall, and things were set up to deal with rural poverty. But actually, the problems in urban areas were primarily issues reflecting the impoverishing nature of the tremendous influx of people who were dislocated by rural poverty and had become urban poor. They were sleeping and eating from sewer pipes, waiting for jobs. On the urban poverty side that was the major issue. Infrastructure requirements, the housing requirements, the schooling, all these matters were inadequate for these migrants, and we concentrated on that basically.

Before that, the Urban Projects department was all over the place, they did not know what to do. They were dealing with pollution, urban transport and other issues, but the real issue, that the cities were growing almost 100 percent in terms of poor people was ignored. Yet, this phenomenon represented the dynamics of these cities. We managed to intellectualize that and focus on some upgrading without moving people. We were trying to consolidate whatever
capital they had put in place in housing and to get in front of this wave by providing serviced lots where people could build their own houses, and have access to sanitation and water, clinics and schools eventually.

So we were on to a new thing, and I was totally turned on by this. I thought the Bank was really moving. And it was. In those days, I'd say in the mid-'70s, in many new directions.

Q: It was an exciting place.
A: Very exciting place. Poverty was the galvanizing theme. Now, a lot of the old hands were very cynical about this and some of us felt like we'd had our clothes stolen by McNamara in those years. But, in general, the Bank was moving very rapidly, and to be part of that was quite exciting.

Q: The cynicism had a lot to do with McNamara's insistence that you had to quantify the number of poor, the number of beneficiaries.
A: We are still plagued by that attitude. We are still looking on the poverty problem in numerical terms.

Q: That turned off a lot of people.
A: That was simplistic. It also reflected the attitude that we were going to do something about poverty with the investment dollar. We were not going to do much about poverty through policy changes and the macroeconomic conditions were something separate. So here we were going to attack poverty by making poor people the beneficiaries of investment. I think that just plainly was not a plausible idea. What is really happening in most societies is that whatever shortages there are, the poor are at the end of the line, and you have to change that situation in order to get them into the queue, the part of the queue that actually gets the goods. So it's not really targeting so much as expanding the availability. This is not "trickle down" by the way, I don't think this is the same thing. What I am saying is improving access, even in villages where you've got quite a range of incomes. You cannot go after just the poor and expect them to hang on to whatever you give them because sooner or later, usually very soon, the stronger ones will in fact appropriate the benefits somehow. We really did not see this in a holistic, more macro sense. I can remember constant arguments between the
real economists and the rest of us who were following these
instructions for a micro, a targeted approach. We never did
get everybody on board.

Q: Now, McNamara gave his first Poverty speech in '73 in
Nairobi. In '75 he gave the Urban Poverty speech. Did you
write that?

A: Right. And we had a hell of a time getting him to
accept it. I pleaded with him. I said, "Look, you know you
cannot just go after the rural poverty. The biggest aspect
of poverty is urban poverty. It's the fastest growing part of
the problem. Of course, we were just trying to get in on the
act. Probably that was almost an instinctive reaction.
Everything was done to rationalize urban lending in those
terms. Most transportation projects could in fact also be
poverty-orientated.

When you see these cities that are doing away with
sidewalks and using traffic circles instead of intersections
with lights, you see that the pedestrian has been
marginalized. Getting rid of the vibsha(?) or pedicab because
it slows up the Mercedes, became a very aggressive,
antisocial act in countries, where practically only 10 percent of the people could afford any kind of motorized transportation. So we were aggressively pushing this poverty issue from all angles.

And so McNamara did in fact make that speech, but he was never happy with it, because we could not get into the employment side of this issue. Where were these jobs for the poor people in urban areas? He would call me up once a month. He'd tell me, "What are you doing about this employment? How many jobs have you created this week?" You know that kind of thing. Of course this was not an easy question to answer, even to contemplate. And of course the macro economists were just laughing at this because that is not the way you create employment on the kind of scale that was necessary to have any results. You had to get into the guts of the economy and talk about capital intensity and labor-intensity. What are the policies to stimulate the choice of investments? What's the right exchange rate? This whole city is probably here because the exchange rate is wrong. And everybody is crowded around this port because
imports are subsidized. With a different exchange rate they might be upcountry where they grow things or where they mine things. This was not exactly creative tension, this was just tension. But we had our instructions and we were going to focus our lending operations accordingly.

Q: This was an instance where you felt you were educating McNamara, pushing him in the right direction.

A: Yes. I thought the employment issue was not something we were going to solve through urban projects so let's get that straight. In fact, we were not going to solve it through urban policies alone. It had to be macro, but of course the minute I said that, you know, that was not his idea.

Q: Were there others who were also pushing in this same direction, outside people like Barbara Ward or--

A: I don't know about Barbara Ward. I think that inside the Bank, Ernie was pushing in that direction. I think Hollis was pushing in that direction, although Hollis certainly didn't see anything wrong with what half the Bank was doing. But actually we were not getting to the issues. We were
expecting too much from the targeted approach, it seems to me.

Q: Let's go back to where you were developing your ideas about this, the way you were going to target your approach. You were coming from a long involvement in transportation projects, which are different from what you want to do with urban projects. How did you go about that?

A: The first thing to be done in the Urban Department was to get rid of a lot of people.

Q: Could you do that?

A: Yes. I probably earned my reputation as a ruthless bastard right there, and really I have never been quite that ruthless since, because I was really mandated to clean up the place. I was told what I had to do, and I did it. I cleaned that place up, not completely but thoroughly, if you follow me.

Q: Right.

A: And then a couple of months after that was basically behind us, I called a conference of people who were reputed to be the best minds in urban development issues from all
over the world. I think 17 of them came. Otto Konigsberger, for example; Sivarama Krishna from Calcutta; a wonderful guy, I've forgotten his name now, from Manila, from the Philippines, several professors from MIT and Berkeley, the gurus of this business.

We sat around for three days but were getting nowhere. I think it was the last day. It was supposed to end at three o'clock in the afternoon. We broke for lunch and Otto Konigsberger and I went to lunch. He wanted to go down and see the Hirshhorn Museum, he'd never seen that, it was brand new, this was about '73. So we got into a cab and went down there for lunch. We didn't eat lunch. We walked around, and I said, you know, "Otto, what am I going to do? We are going to go back there and I'll just sum this thing up and I've got to give direction to this department. What are we going to do?" And he hemmed and he hawed, and I said these cities are growing at seven percent, roughly twice the population growth rate. They are running out of space, houses, pipes, water and everything. The places are a shambles, right? This is the process of impoverishing people, cutting them from services
and depriving them of access to even stuff that they had back in the rural areas in some cases while they wait for jobs in the urban area. These cities are growing almost 100 percent in terms of poor people. So why don't we concentrate on that? If we are going to concentrate on something, why don't we concentrate on what is the central problem of these cities: their very rapid growth and their poverty. So if we can get the poor settled properly in a more equitable and humane way, will that not ameliorate the problem? Isn't that going to be a central issue--? "Why," he said, "Your main problem is that the city fathers don't want these people. The city fathers want to bulldoze these people out of town. They don't want to settle them." And I said, "Well, that's what we have to change, no?" And he said, "Well, you are right. Let us try that, So, well, let's go back to the thing."

And so I basically laid that out at the meeting. And, I got 100 percent agreement. Somebody had to suggest the idea, and Otto's confirmation to me was the only thing that gave me the guts to do it. It was interesting because as we went
around the room, everybody saw that's not the whole answer but if you've only got 16 people and you are going to try to change something, this would be the way to do it. And so we did it.

So we stopped everything else and concentrated on the slums. We wished the rural poverty people well because they were going to stem the flow of poor people into the cities if they were successful. So we began to marry up the fight against rural and urban poverty a bit and that was a big success. After that there was a great esprit de corps in the department. We were operating with about 50 percent of our crew as consultants. It was the highest consultant ratio. And we were the fastest growing sector in the Bank which was appropriate since the urban poor were the fastest growing population in the world.

Q: So getting this message to the rest of your organization was not really a problem? They picked that up quickly?
A: Well, they were, but what we did was just hiring the people that were into this kind of thing. So eventually this way of thinking became very predominant and whatever
nostalgia there might have been for the master planning boys was swept aside. So they got with the program real quick.

Q: And what about the city fathers? How did you handle that?

A: Well, we found that out the real world was pretty chaotic. In most cases, the poor people were sitting on land that was extremely valuable. The poor were settling right in the center of towns next to the jobs because they could not afford any transportation. They would settle right behind the port. In Djakarta, for example, they would live all around the central city and under the power lines, against the railway tracks, and wherever it's a little bit boggy and smelly, that's where they are. But the locations were valuable. This prime land had fallen into limbo because nobody had the political guts to bulldoze the poor squatters which didn't work anyway because these people would just reorganize. There was a lot of animosity built up and problems which affected the administration of the city. This was our argument. We would point these facts out in our argumentation. We were also attacking the housing program
because almost all the dollars that the state was putting into housing were for subsidized housing, which people couldn't really afford, so it meant that the money ran out before poor people got housed with everybody sitting around waiting for this thing that wasn't going to happen. We had a computer program to demonstrate what would happen if they went one way or another. How much money they would have, how many people would be housed etc. We showed that the land could be brought back into the highest and best use pretty quickly because what happened was that once the poor people got tenure, got an address, and actually owned the land, which is what we were always after, to get in effect title, then they could sell it. And they would. So that land would come back, it could be consolidated but these people would have had their windfall and they could go and relocate in a reasonable way, provided we were doing the rest of the program which was to build these large areas of service sites where they could build their own shacks, and then consolidate them in homes as they could afford to do so.
So this was a very logical program and it sold. We changed the housing policies of scores of countries. A lot of that has deteriorated now. They are not following many of these approaches any longer, in some cases appropriately because the countries have really taken off, like Thailand and Indonesia, they do not need to resort to these solutions anymore. But in Africa I've seen that they have been abandoned just because of the general economic decline, the loss of bureaucratic memory, and the fact that we are not pushing those kind of projects in this world crisis period. Now, we've got bigger fish to fry.

Q: You've shifted momentum. The Bank never put much money into these programs, in terms of our overall lending, the proportion of funds that went into urban projects remained relatively small?

A: They were very inexpensive. For $25 per capita we could organize a complete transformation of a slum of several hundred thousand people. So we are talking about a very small amount of money.

Q: But did the Bank also act as a catalyst in this field?
A: Right. We were out there actually using NGOs and this was a very interesting time for the Bank because we were working down there in the slums. The trick here, from the cost point of view, was to improve housing without moving anybody out because this is where they wanted to be. It was exactly 180° away from the bulldozing technique.

It turns out that whenever you have to put a bend in the pipe you have to put a manhole, because that is where the pipe is going to be stopped up. So one idea is to minimize those because they are expensive. We had to pick these houses up and turn them, or maybe move them four feet, and always at a right angle, and straight lines to minimize the number of manholes. We'd be out there involved in this micro planning since it all had to be done by somebody. Of course, we had intermediation. We had town meetings. Everybody had to be involved in what was going to be done. It was very participatory. Of course, now we are getting to participation on a much broader basis. But you couldn't do it any other way. There was no way you could go into a slum and tell everybody to stop living for six months while you regularized
it. You have to do it while everybody is in there eating and sleeping and defecating and whatever, while you are going to put this project in place. Very tough work actually.

In Manila there was a water tower next to one of the slums. We hired a guy to climb up there every week and take a picture. These pictures would come back once a week and we'd look at them and, we would just see this amazing transformation of this huge slum. I've still got those pictures some place.

Q: Well, you've talked about working with NGOs. Were you getting any flack at this point from environmental groups?
A: Well, those kinds of NGOs, are more political groups.
In Djakarta there was a very repressive regime that sort of squashed all spontaneous organizations. But in Manila there was much more activity, despite the nature of the Marcos government, this was irrepressible. The Zone 1 Tondo organization, the ZOTO, I can remember seeing their sign on everything. Every mailbox had the Z scrapped into the paint. They were the prime group, and wanted this project. Of course, the government was going to bulldoze the slum. So we
got in there and convinced the government not to bulldoze these people and we would finance the slum rehabilitation.

It took us about five years to talk Imelda Marcos into this, but we finally got her to do it. Of course, you've got to work with the government, the government is involved. The Zone 1 Tondo organization was furious about this because all of their issues had been in effect co-opted by the government. These people were going to get tenure, they were going to get pipes and all this stuff that was going to come from the government. So they tried to defeat the project. They complained about the fact that these people had to pay a token amount for the land. The whole purpose was to establish a credit record, establish their tenure so that nobody could take this land away from them. But ZOTO argued that the price was too high, even though it was minimal, and these people had already bought this land in many other ways, etc.

They tried to defeat the project, I can remember that. But in the end, they couldn't. The people modified their action and withdrew their support of ZOTO. So it was a very
complicated political situation, and most of these cities are very complicated political places. We learned that, and you really have to know what you are doing when you step into one of those places.

Q: So it was really the internal politics?

A: The city and the nation had to be understood by somebody. Usually it was not actually by us. We needed intermediaries who did that; we'd take those to make sure we did not make faux pas.

Q: The one thing I don't understand is how you kept the macro economists away from you. You have got a program now that will work. But it's very micro and, as far as I can see, it has no basis in economic theory at all.

A: Oh, no. It had very good basis. First of all, we described even the most humble shack as capital. Now, this was capital formation, and you may not like the looks of it, but actually it's a house. People live there. They may not be comfortable but this is the best house that they can get. And this is the location they want to be in and so this is good. Certainly, this land is extremely valuable and it's got to be
brought back into the market. Bulldozing is infeasible, so we rule that out, so then the idea, you know--.

Q: You rule that out politically?

A: Politically. Everybody will agree with us. Even the macro economists. So then the idea was how does this transform the economy? And you know, it did. The full weight of this capital allowed the intensification of land use. Because when we improve these slums actually you can put more people into them. We found that these houses were developing very quickly. You add a second story and they begin to go up and soon the slum begins to look like a city because the location was so important for them in total amounts of income. But nobody was going to make that investment until they had some kind of tenure, and so things began to change and, I mean, every macro economist would agree with this. It was something that was replicable and we did this without any subsidy. Obviously the land was confiscated in a sense already by the people so that really was not a cost. But, everybody paid for everything they got, and it was all affordable, so it was the macro economist's dream.
In the case of Senegal, all we did we put in $16 million into what today is the second largest city in the country. It was then just a bare site, nothing there but sand dunes. And with that $16 million we put in pipes and pavements, and electricity. And today there are something like 750,000 people living there. The whole range of income groups in the country, from the very wealthy right along the edge of what is a beautiful beach, to the very poor. I think the latest estimate is that something on the order of $200 million worth of private investment in houses went in there to accompany that $16 million. So that was a beautiful catalytic project. It solved all kinds of problems and led to all kinds of productive investments.

Some people think housing is just consumption, but actually the people build that housing and there is a lot of employment and of course the efficiency of being near their jobs is very important.

Q: Okay. I can see how you got the economists on board, but it seems the focus has shifted in the Bank so much towards
scale, or volume. Yet, you were operating still on a small scale.

A: Well, now we are talking about millions of people.

This was not exactly small potatoes. I think we were up to about $500 or $600 million a year in lending at the height of the urban program. So that was a lot of money. In those days it was a lot of money for sure.

Q: It was sort of like ten percent or so of total lending?

A: Yes. Maybe $300 million or something around there.

Because the Asian projects were big. Djakarta and Surabaya, these places, were in terrible condition. Literally you would be up to your knees in human excrement, slogging through, always in flood. There would be a line around the inside of the houses, about five feet off the floor, you could see the scum line, you know. People were doing everything right in the road. You couldn't believe it. The kids playing in the dirt. It was just incredible. Now all that is fixed. It is all above ground and the water table is down several inches at least. There are walk paths and drainage and everybody is up out of the muck, and it's a
tremendous difference. The health situation in the city changed completely. That guy at the Indonesian hotel that would put his thumb in your soup and you would damn near die. All that has changed along the way.

Q: Now, the urban problem on the one hand of course was the result of the influx of these large masses of poor people from the countryside. But on the other hand, it was also a problem because urban administration and urban management is notoriously difficult. You only have to look at D.C. here to get a sense of that. What did you or the Bank do to address that second problem?

A: Well, that came later. This is what we have tried to focus on in Africa and so far we have not been able to do it because there are so many problems. It was very similar in Urban. So first we tried to change the policies. Once we could do this trick over and over again, and usually it proved successful, you landed on your feet. It took some practice but we finally got there. Then we turned our attention to urban management and in fact we got involved with the fiscal aspects. You know, the division of tax
proceeds between a central government and the cities, the provinces, the secondary cities. How did they raise money? How did they maintain their infrastructure? And while we were less successful, we did have an impact on that. We brought more attention to property taxes, in other words, local, buoyant sources of income. You put in a street and the land values there explode because there are so few streets, and it is such a big advantage to having a street. So we would try to capture what we called the "added value" that would be created by the public investment. We would try to recapture that for the public good and then expand the number of streets. We would build these sites and services projects where the houses that are on corners or on the main road would be priced at a very high level because they were commercially viable places, and then all that plus valeur, or whatever they call it in Spanish, would be plowed back into the low-cost housing with the lowest level of infrastructure. The number of plots would be expanded at the low income level in order to house more people at the lower cost. So we used cross-subsidy devices to make the scheme viable.
How did I get on that subject?

Q: I guess Jochen was really asking about corruption.
A: There was not even corruption so much as just lack of capacity. Who is running these cities when the guy who runs the country is also weak? The national government is weak. Why do we expect the city government to be anything but much weaker? And so forth. It always was that way. Still is, obviously. But the idea was to strengthen that through better sharing, better arrangements, and more decision-making at the local level, and hopefully this would lead to improvement. However, we trained a lot of people. We are still training a lot of people in urban management.

Q: So how soon did you launch those training programs? A:
   We were into urban management per se probably by '77 or so. Then we began to regionalize this operation. This had been a central function. We were a central operating Projects Department, COPD. And we serviced all the regions with this kind of projects. And of course we thought that the regions were not buying our projects because we were not
part of the family. These are the kinds of issues that go on today. But nevertheless we were rapidly expanding, we had a big program, a tremendous esprit de corps. And then we just started to regionalize. I think the first regional decision was in South Asia. Sven Sandstrom was sent to South Asia with his division. Then Cal Madavo went off to East Africa. By 1979 I had regionalized the whole thing and I was back to this job that I did not like, which was the one where you are out of the action, you are just sort of overseeing and coordinating. But then I immediately changed jobs so the timing was perfect.

Q: Now, the theory of the reorganization of '72 was that it was to decentralize authority.

A: I think it was to actually put the program or the country orientation in ascendance over the sector orientation. Very clearly this was the time when McNamara was promoting the country program paper, CPP. This was the advocacy document on which allocation of IDA or World Bank lending rested. Issues of creditworthiness and so forth were dealt with, but the country strategy was there. Of course
this was also a matter of accountability because what you promised to deliver you were going to deliver. The CPP became a fundamental document. The sector people, became in effect subordinate. We took orders and we delivered. We were not in charge of generating our own programs. That of course did not last very long. Before long, even inside these regions, these projects departments, because they were together, really were the keepers of the keys. They would go slow on countries they didn't like or if the countries didn't toe the line on sector policy. And so, there was this tension again between "let's go and let's fix this matter" and, "well, these guys are not ready to be fixed." A kind of picking and choosing. And I would say that by the late '70s this had come to pass.

By then I was on the program side. I shifted in 1979 to the program side, so I was looking at it from the point of view of a frustrated country director who could not get the project department's support. Even though I was the only country director in the region and I had a whole projects departments dedicated to my array of countries, I could not
get them to deliver the program that we thought we needed. The program was driven by the number of highway engineers, the number of railway engineers, the number of agronomists, not by what our countries wanted and needed. And there was really very little I could do. We did get the products we wanted in the end but it was at very high cost. It just became more and more expensive to get that product. So that's my theory of what happened by the late '80s. It took us a long time to get there, but we were already in that box by the late '70s in my opinion.

Q: But you did have the Vice Presidents who could intervene. And the Vice President was under the gun because he had to meet his targets.

A: Yes. Right. There was certainly a big improvement over pre-'72, in terms of our country programs being in ascendancy.

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Q: As you described it, by '79 you had regionalized your program, demonstrated its success and institutionalized it in the Bank's structure. So you were ready to go.
A: Right. In every sense I was ready to go. It was either that or I was leaving the Bank.

Q: So now you move to another part of the world and again you are going to come up to speed. I want to get some sense of how you did that this time.

A: Well, in the East Asia region, Shahid Husain was the Vice President and he brought me across to East Asia-Pacific region. I succeeded a guy who was one of the more brilliant economists around here. I always thought of him that way. He is Stanley Please, who was a very thoughtful person but who was not a very good manager apparently.

I never worked with him directly. Later we were associated but this was when he worked in an advisory position for the Bank. At any rate, my sense was that I was brought in because I was a manager, and that's what Shahid wanted. He sent Stanley to Indonesia to be the Res Rep, and this was a very important post. It was also a director level position. It was, in effect, the other director position in the region. Even though I had to present and defend everything that was decided in Djakarta, I never interfered
with the director in Djakarta. I never second-guessed the director in Djakarta. Well, Stanley did not like that job and he left the Bank after that, or he left the region and went to work for Gruie at that point. Russ Cheetham went out to Indonesia instead, and we had a very good division of labor.

Almost immediately after I joined the department, China was on our screen. Just before I joined this region I went on a private visit to China. This is a funny story. I went with a whole bunch of people from the World Bank, friends of mine and people who worked with me in the Urban Department. We all went out together, plunked down $4,000 or $5,000, took our wives and went. Dave Gordon was also on the mission. The Chinese treated us like official visitors, even though we kept saying, "Well, we are not official. For goodness sakes, stop this." They backed off as far as press releases and all of that was concerned, but they did treat us like we were official, and we got access to the highest levels. The quality of the food was wonderful. The logistics were perfect. We were really treated like visiting royalty. We got into communes and factories and brigades. We saw the
mayor of Shanghai and met the Vice Premier. We went to the Bank of China. It was an amazing thing. Anyway, I almost got fired for that because at the time, even though McNamara was flirting around with the idea of trying to get China to actually make a decision to join us, the Taiwan issue was hot. Actually the U.S. Government was trying to make an opening there, Jimmy Carter was President, but then China invaded Vietnam and everything came under a cloud. It was at this point that this "mission" of World Bankers was parading around China, pictures appearing in the newspapers, raising a lot of ammunition. But later when I went to East Asia-Pacific as director of programs and China was actually going to join the Bank, the Chinese just assumed, that my visit in '79 was like the dove off the ark, exploratory. They thought that I was just scouting the place so now that I was in the job that it was time for them to join, and, sure enough, they did. In fact, when they did join they cited this mission and the fact that Jaycox had visited China.

Q: Well, they could not imagine that you had not planned it.
Anyway, that was the big deal and of course I spent a lot of time on China. But we had six programs divisions and that to me was the most interesting thing because this was a huge region. The lending levels were very high. It was a very big part of the Bank, and it was impossible for me to run those six divisions. It was just out of the question. So I developed a style of real delegation where I just let the division chiefs work. I really spent a lot of time on delegating and I think from a management point of view that is the biggest thing I have learned how to handle. You can do that and you can get a good operation.

This was a big operation that ran smoothly. We did a lot of good work. We witnessed the turnaround in Asia from backwaters to tigers. The conditions when I first got involved there, I guess even going back to my days in the Urban and Transportation Departments, in which I also did some work there, in the Far East, were really bad. These countries were in terrible shape.

Indonesia was like Zaire is today, and South Korea was not in good shape and considered the "sick man" of Asia,
later of course getting better. We had our first structural adjustment operations in the Bank in East Asia, in Thailand and Korea and the Philippines. These economies were in big trouble in the early eighties. It is interesting to see how they've become so strong since. This is a big lesson for Africa. I am drawing these parallels all the time.

As a matter of fact, when you talk about the East Asian Miracle, you talk about six countries including Japan. If you were to look at Asia, in general in 1979, you would see a China that was stagnant, and the biggest economy practically. You would see Malaysia that had yet to perform, and Thailand that was a backwater. Indonesia was coming along. The Philippines were in big trouble. Of course, Vietnam was completely on its back. Laos, Kampuchea, Burma, completely nothing. And the averages for that part of the world would look worse than Africa does today, on average.

But inside that overall picture, you were having these few countries beginning to perform, and now East Asia is seen as a big success. Well, now with China performing like a bomb, I think it is really a big success.
What we are trying to achieve in Africa is basically to illuminate these performing cases. There are quite a few that stand out in the general malaise, that is afflicting the continent.

Q: But what was the reason in your view for this ability to perform?

A: Well, there were a lot of positive endowments. A population that valued education very highly. I've got other historical theories on this.

Q: Won't you tell us--?

A: Let me put it this way, two big wars going on in that part of the world. That is part of the deal. Certainly the Korean War had everything to do with the post-war history of Korea. Those people were scared to death. They were in mortal combat or confrontation with the people next door, and they had to perform economically.

In Southeast Asia, the elites got together and they were led by the U.S. in this belief in the domino theory and all that business. They believed in the domino theory in Southeast Asia. They really believed it. Those elites I
think got so alarmed about the probability that they were going to be overrun by communists from Vietnam or China or both, that they just decided that they were going to develop their economies and include as many people in the process as possible, so that the people could not be subverted easily despite all the ethnic and other problems they had. Malaysia did that. They had a big Chinese minority. They were scared to death that if they didn't make that economy perform for everybody, Malay and Chinese alike, they were going to be completely defeated by the allies of these. I think that these were among the things that really made people act. I think that when the elites in Africa get worried enough about their future ability to control things that they are going to turn to economic performance as their solution too. And that will be good for everybody. But that's maybe a ways off.

Q: Could you give us some idea about the structural adjustment loans at that time? Were you having particular problems? Were there elements of conditionality that were a problem?
A: Well, I think the first one was Korea, and this was in 1980. We had planned one in the Philippines. It was the one McNamara talked about in his speech saying that he was willing to give balance of payments support loans to countries that liberalized their trade regimes. So we did a trade regime loan basically and called it a structural adjustment loan, or something like that. In fact, it had many names. It was supposed to be anticipatory. We see trouble on the horizon and we start to restructure. This was the second oil shock, after all.

Q: Which had a big impact.

A: Yes. We would tell these countries: "I am going to give you balance of payments support so you can get on with liberalizing your trade regime, getting your manufacturing more competitive, getting your energy consumption under control". That was the idea.

I was most involved in the case of Korea. The Philippines operation was already designed by the time I got to East Asia. It hadn't been done, but it was designed before I got there. The Korea one was my baby. The Koreans had
through directed credit and various manipulations of the trade regime and other favorable goodies that could be given out by the Blue House, overdeveloped the heavy industry. They had gone from shipping to generating equipment to very large heavy machinery manufacturing, and they were completely out of it. They had over-invested, and they could not compete. Their exchange rate was out of whack; they had inflated the economy in the process so that is why their exchange rate was out of whack. The banks and the industry were practically bankrupt. They had tremendous debt-equity ratios. So our job was to provide some balance of payments support while they basically consolidated, restructured, liberalized the trade regime, which they really didn't do very much of, but they did try to force the competitiveness.

And, of course, we also talked about the exchange rate, and this drew tremendous flack from across the street. The IMF people would say: "No. That's our business. What the hell are you guys doing? What kind of loan is this, anyway?" We had more trouble with the Fund than we had with the Koreans.

But in the end, we managed. The other thing that was new
about this was that it was a six-year deal and the loan only covered, the first year or two. But I wanted the agreement to cover the whole six years. I was not willing to start this process unless they were going to describe where they were going to be, and what they would do all the way out to the sixth year, in some appropriate level of detail. Very detailed up front, and then in more general terms. This they bought. We had a long discussion. But in the end we got what I would call a medium-term framework. All of these things later became tools for the Bank as a whole. They are now called policy framework but it was basically a longer-term view. So we had a lot of flack from the Fund, but we had a lot of support from higher management. But there was still tremendous controversy inside the Bank about whether we can in fact get all of this, and should we try to, do we know enough? These were all good questions. We did get the answers in the end and made three loans within these six years. It was quite a successful thing. They never did change the exchange rate. It was very interesting. The chief economist that I was working with was a guy named Kim and I was Kim
Jaycox. We would meet in a room and we'd never know who was Kim. This guy was determined to get all of these real effective exchange rate adjustments without changing the exchange rate nominally. That meant that they had to reduce the wages, for example, and they had to do it in a timeframe of about 18 months. This fellow was a brilliant economist. I say "was" because he was later assassinated in Burma by the North Koreans along with the whole economic team of Korea about two years later. But he was determined to do that without changing the nominal exchange rate and he did in fact manage that through a combination of wage freezes, tax policy, and allowing a certain level of inflation to erode these wages. He compensated later for the loss in wages.

In Korea they had a housing problem, they still do. They measure the floor space in terms of pyongs. Now, a pyong is the space a human body takes up on the floor. That's about 5-1/2 to 6 feet long and maybe a 1.5 or 2 feet wide. It virtually means the place where a person lies down on the mat. So all houses were measured in pyongs because everybody slept on the floor on these mats. These houses were tiny, and
there'd sometimes be three families in there. They have shelves where people were stacked up, and they would sleep on the table, or under the table, that kind of thing. And this guy liberalized the construction of housing, all internal, all using domestic resources in such a way that the labor was compensated with more pyongs instead of wages. They were getting less wages but more pyongs. They regained their competitiveness in about a year and a half through this. It was really a masterful performance. I think it was only because the country was a virtual police state that you could do this. But it's the only case I know where it would. Certainly West Africa tried for ten years to change the real effective exchange rate without changing the nominal. They didn't have a police state and they didn't make one inch of progress on that.

But those programs in East Asia were very successful. In fact, they were seen as successful and we were emboldened to use this kind of lending all over the place, including in Africa. About that time, I wasn't there. Senegal and Kenya
started to have structural adjustment loans, both of which failed miserably.

Q: You were talking about management, and how you had developed your own style of decentralized management.

A: Yes. But unfortunately this was not exactly admired, I would say.

Q: That's what I was going to ask you. But now, you are in here, and you've got a real micro manager up above you in the person of Robert McNamara.

A: Now, he did not give me any trouble at all. However, I am still accused of ignoring the details because that is the way I run this region. I have got six country departments, or did until recently, six country departments, and there is no way I can get in there and start operating or lead consultative groups or any of that stuff. I can't. I have got to stay away from that. Otherwise, I would, first, become a big bottleneck and, second, I would kill myself, so I'm not going to do that. And so that's the style I've developed, and of course that's been translated by some to mean that I am lazy and not very interested. I've heard it all, I could
tell you, but most of the people, most of the directors that worked under this regime did very well by it. I mean they enjoyed it and they, by and large, performed.

Q: But for you this is a significant break from your mentor up at the top. You have now developed a distinctive style of management. You must have been very aware of that.

A: Actually, Shahid Husain was very supportive. He delegated. He's a "clean desk" man. I don't have a clean desk. I am more involved than Shahid ever was, in a way, although he used to pick his subjects and then intervene massively. He intervened massively in China.

Q: Yes. Would you talk to us a little bit more about that, and how that developed?

A: Well, the China thing, we all went together, Shahid, I and Jack Beech. Remember Jack Beech, the power engineer? And Kirmani, our projects director. And I guess Caio Koch-Weser in the second phase. We went to listen and we got taken around China. This was the first mission, just after they joined. There had been previous missions of Moeen Qureshi and others, the legal people.
Q: McNamara.
A: McNamara. Did he go to China?
Q: He went to China before they joined.
A: Yes. I guess that's right. And he went with Caio, who was his assistant at that time, and when they joined, Shahid hired Caio to be the division chief, which surprised me, because Caio was a very junior person, and he didn't consult with me at all. Caio was reporting to me but that disturbed me for about 30 seconds. After that we were definitely in over our heads, and we were both swimming as fast as we could with the Chinese. The Chinese were very interesting because they did not understand us at all. They literally did not speak the language, even in translation they did not speak our language. They didn't know any of the jargon that we used, and I don't mean just World Bankese, I mean economics.
Q: I have had students from mainland China and graduate students, and the bright ones I just give them the textbook and I tell them, "Now, I'll show you the chapters to read." It is a revelation to them.
A: Well, we were dealing with officials and there were not even any economists among them. Later we found some economists and we did an economic report. The first economic report was done by Parvez Hasan and Ed Linn, and they were a good team despite the fact that Ed did most of the work. Parvez was a very good steadying influence. They produced a very good report, which also set a style. This was something that I really think was a model I have tried to follow in the case of South Africa now that South Africa is back as a customer. It is usually something you can do only if you have a new start of some kind, and that is to really treat the client like they are an adult. That is something that we have to learn around here. Instead of telling our members what you think they will have to do, you give them options and you tell them what the pros and cons are of each, the implementation, the nuances and the difficulties that they are likely to run into. Whether they want to do that or not is up to them.
Q: So you think there's some tendency for people to feel that if these countries did not need direction they would not be where they are?

A: Well, I think that the Bank is just very prescriptive. And the thing is that you may get some kind of results from that but you don't get the kind you want, really, in the long run, which is kind of a commitment to the course chosen. In any case, we did that in China and this report became a hot best seller. It was published in newsprint, and sold in the bookstores all over China for about 15 cents equivalent and it was very well written. It was the first time. I think truly everybody was collaborative, with a lot of Chinese economists working. It was the first time for anybody to have an overview of the Chinese economy, beginning with the very top. Because the whole approach to regional autonomy, brigade autonomy, commune autonomies, self-sufficiency, did not allow to focus on the macro economy in the normal sense.

Q: Was decision-making particularly slow on the Chinese side?
A: They didn't trust us very much. I remember coming back from the first mission, you know. Shahid wrote a report saying, "we can do a billion dollars worth of business a year here," and I said, "Shahid, please, do not put that in there. First of all, you and I know there is no way they are going to accept a billion dollars worth of borrowing. They have never borrowed a cent, for God's sakes. They do not even like to borrow. They think borrowing is ridiculous. I know that McNamara thinks they should be at least ten billion dollars in debt. But they will not borrow that much."

Shahid insisted we put it in there. We set up a program. We built the divisions, got everything going and commissioned these economic reports. We did $200 million in one loan, that was it. After about two years, things started again, and we finally did get to do a very large volume, as you know. But we had very high expectations from China and they were resisting us to a large extent. And of course everybody and his brother in the Bank wanted to go to China on missions. We were not very popular because we had a veto on anybody going and we hogged China for about 18 months, we did not let
anyone from the Bank go on China missions until we'd established some kind of relationship with China.

Q: So you wanted to keep control of that relationship?
A: But we brought in people from all over the Bank to man our missions. It was just that we controlled the access to China, and some people really found this very difficult.

Q: It was also a lesson, on how the system of the Bank worked. China was able to attract the best of the staff, and the way the Bank worked, at least at that time, unless the work and the country attracted the staff, people wouldn't move there.

We still suffer from this. We will get into this issue when we get to Africa because you remember, there we had a hell of a time. Trying to get the top management is one thing, but the professional staff is another matter. We are talking about people who are deciding their own career paths and want to be where the action is really. It is very difficult to hold the staff on an unimportant, not very attractive country. Of course, there are some overrides on that, and we try to make a difference, but, China was just
the other way completely. We got the pick of everybody, and we brought people in from all over the Bank, made them part of task groups, they did their thing and then they were sent back to where they came from. But no voyages of discovery, personal voyages of discovery, please. We were busy trying to establish a relationship here.

Q: Right.

A: The logistics there were very interesting because there were no hotels in Beijing, except for the Beijing Hotel, which was always completely full. But we were special so we were put up in these guest houses, which were mansions obviously left over from a previous era, staffed, with hot and cold running water, servants, overstaffed. Everywhere you looked there was white linen and people sweeping and serving food and every bit of service. Living in this huge place with maybe 40 bedrooms would be just the four of us. We never had to share anything with another mission or, it was weird, because we worked totally isolated, we could only talk to the people that came to see us. We never were taken anywhere, we never went to a Ministry, they all came to us and talked
about their programs. That went on like that for about a
year, and then later of course, when we got into the sectors
and into the provinces that all broke down. We were treated
very special. I don't know what it's like now in the former
Soviet Union. I don't know what people are doing there,
whether it's the same way or not.

Q: Were there any particular programs that you thought they
should have taken hold of, that you just got stonewalled on,
in the case of China?

A: The choice of our first project was surprising. The
first loan was for the university. They were interested in a
$200 million Bank loan to the university system, and the fact
that they chose education and were willing to borrow hard
money for that, really was impressive. Everybody involved
was impressed. They were willing and able to reform their
education system pretty thoroughly. And of course they were
totally disgusted with their education system at that point,
and needed to completely clean house in these universities.
They had to change the working hours, and they had to
introduce a new kind of discipline, a different kind of
discipline to the students. It was really an impressive program. The money went for scientific and laboratory equipment and things like that, and libraries. There was no area that was closed to our involvement. We just didn't get around to some of the areas that might have been interesting. And they called the shots.

Q: Right. I guess I was just after what kind of projects seemed to flunk out at that time.
A: We ran aground in the ports because we wanted to change the administration of the ports into a profit center and things like that.

Q: Right.
A: Later, that was all ironed out. We never did get into industry. I don't remember now. But I did not see any resistance. The whole place was so bad, and there were so many things to do, that by the time we got going, we were really rolling.

One of the features that I thought was important in Korea, and I think that also probably happened in China, was that they had very clear views of what they wanted to get
from the Bank. And they would ask for it from the Bank. And make use of the Bank's resources. We were not just running around looking for projects there or in Korea. That's right.

Of course, they asked us for an awful lot of things that we never did, and we advised them not to do them, and they went ahead and they were great successes. The Port of Inchon, the Pohang steel plant. You go to Korea and they'll always tell you about that. And of course the Seoul-Pusan road which was just fantastic. They did not have any roads. And we did not think they needed them, for some reason. They had a great railway but that's not a substitute for the road.

Q: We insisted that they do the engineering. We gave them a credit for the engineering, and every time they came they said "We want to change the roads," and we would say "why?" and they'd say, "Well, because we've already built that one."

A: But then also, the automobile industry. That was part of the structural adjustment in Korea. We told them absolutely no automobile industry until and unless you can export it. And absolutely no subsidy to the civil service to buy automobiles from the domestic industry. They signed that
agreement, and they lived by it. Of course, before we finished the structural adjustment series they were already exporting this Hyundai to Canada. They had 400,000 of them out there on an annual basis. So, I mean they were very good customers.

Q: Yeah.

[END OF RECORDING, TAPE 1, SIDE 2]