

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

GERALD ALTER

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By: John Lewis, Devesh Kapur

*[Begin Tape 1, Side A]*¹

ALTER: This is Gerald Alter. I came to the Bank in 1951, after spending around 9 years in the U.S. government in such agencies as the Federal Reserve, Department of Commerce, Bureau of the Budget. I went into the development economics field really while I was at the Federal Reserve and got particularly interested in the problems of stabilization and development there.

When I first came to the Bank, I was in the Economics, what was called the Economics Staff, I believe it was called, and moved from there to the Western Hemisphere Department, acting as assistant chief economist but gradually moved into the job of chief economist. And after several years, I was appointed director of the Western Hemisphere Department. And when the reorganization took place, the first reorganization under *[Robert S.]* McNamara, I was made Vice President for LAC, Regional Vice President for the Latin America and Caribbean region. I retired in--I stepped down from the LAC region in about '75 and stayed in the Bank for three additional years in the office of the senior vice president, Mr. *[J. Burke]* Knapp, as a senior advisor and worked on, particularly on the financial sector and the relationship between the Bank's position on interest rate policy and financial intermediation.

LEWIS: Good. One thing that we've been puzzling about is the extent to which different regional quadrants are different from others in terms of how they do business. And the characteristics of the Latin American region, I think, are particularly interesting, and you were right in the middle of it during that period of the '60s and the '70s. Were you conscious of sort of running a different kind of shop at that time?

ALTER: I became increasingly aware as I continued my work in the, what was then the Western Hemisphere Department and later the Latin American region, that we took a, put a much greater emphasis than most of the other regions did on the general economic policy aspects of the Bank's work. At a very early stage when I was, when I became chief of the Western Hemisphere Department, I recognized that the Bank's project lending needed to be put into a much broader context than some of the other departments seemed to be doing. I guess it was partly produced by the simple fact that inflationary forces in Latin America were generally stronger than the other regions and you just could not avoid facing up to the macro aspects of the problem. Even in such simple fields--what were called "simple fields"--as, for example, electric power, transport, traditional infrastructure sectors, we were always running into the problem of the rate covenant in the Bank's loans which required, in an inflationary environment, adjustment processes. And that ran into the whole question of the stabilization policy. So from that beginning, we became, I think, increasingly conscious of the need to do economic analyses in much greater depth, to have discussions with the authorities in our borrowing countries on the macro aspects of their policies. This was done generally in the Bank, but I think we put

¹ Original transcript by Brookings Institution World Bank history project; original insertions are in []. Insertions added by World Bank Group Archives are in *italics* in [].

somewhat greater emphasis on it and spent more time and resources in doing that kind of thing.

As the thing developed, and particularly in the latter part of the regime of Mr. [George D.] Woods, I became increasingly convinced of the necessity for the Bank to prepare--particularly in our department, the Western Hemisphere Department at that time—to prepare lending programs which consisted of a program of project lending, extending over two or three years in the future, with some determination of what kinds of policy changes we felt the country should make in order for us to be able to respond in the appropriate manner to their willingness to undertake these policy changes. We had to, of course, take into account the readiness of the projects, and we tried increasingly, even prior to McNamara's arrival, to come up with some kind of ideas on this score.

After Mr. McNamara took over, of course, this was—this approach became very general in the Bank.

LEWIS: The focus on policies?

ALTER: The focus on policies and the focus on the preparation of lending programs stretching several years into the future as a backdrop for the individual operations.

There was also, of course, during this, even prior to his coming in, a big policy issue in the Bank—well, not a very big one, but a policy issue of under what circumstances the Bank should make program loans, non-project loans, usually much more quickly dispersing. During my period in the LAC, we did not really in Latin America get into this field very much, that is non-project lending, which, of course, lent itself very easily to this kind of general policy discussion with the government on some of the chief elements in their both macro policies and their micro policies. But with the--later on, of course, the Bank turned to this element to a much greater extent.

LEWIS: Yeah. I should remember this, but was the Bank involved in the Alliance for Progress?

ALTER: The Bank was very much involved in the Alliance for Progress. We joined with AID [*U.S. Agency for International Development*], the Organization of American States, the International Monetary Fund in regular reviews of country programs. And we took a very--we took this quite seriously at the time. Looking back, I'm not sure a great deal was accomplished in those reviews, but there was an exchange--oh, the Inter-American Development Bank was involved, also, I failed to mention them, and there it may have had some impact. I recall that at the time that the Inter-American Development Bank—this was in the, during the presidency of George Woods--there was considerable fear that the (on our part) that the IADB would be undercutting the conditionality that we were trying to establish for Bank loans. I think that both the AID people and the Bank representatives had some impact upon the way in which the Inter-American Development Bank operated, a marginal impact, I would say, not a very great impact.

LEWIS: How about you and the Fund? Our old friend Walter Robichek was there.

ALTER: Well, we had close collaboration with the Fund in many countries. In some countries we had our differences, and the Fund was, of course, very, even at that stage, was very jealously guarding its jurisdiction. And when the chips were down, there were many people in the Fund that felt they could safely ignore what the Bank had to say.

Walter and I personally got along very well, and we collaborated very closely in the work in some countries, such as Columbia where during one period, for example, I--the Fund was out of order with the Columbians, and I managed by discussions with President Carlos Lleras Restrepo in Columbia, to set the stage for the Fund coming in and having meaningful policy discussions with Carlos Lleras and with the finance minister and the minister of planning. And this set in motion the process by which the Columbians gradually relaxed some of their direct controls on foreign transactions, moved toward more realistic exchange rates, and established some semblance—not very, this was the weakest part of the program, I think--on the fiscal side. But it was a step forward. And while I can't say that it was a complete success or even a 90% success, I think we did manage to, in collaboration with Columbian officials who thought along our lines--it's been my feeling all along that unless you have an important group within the government bureaucracy of the country with whom to work on these problems that you just can't get anywhere as an external agency.

LEWIS: In terms of that business of the, I suppose sort of "doctrine," development economic doctrine, were you and the Bank fairly clearly aligned with the so-called "monetarists" against the "structuralists" or . . .

ALTER: I felt that these words had very little meaning, and I never tried to identify myself on either side of this issue. I was very much aware of the arguments on both sides; I was perhaps a little more critical of the structuralists in the sense that it seemed to me that they failed to recognize any relationship between structural reform and year-to-year economic stabilization. I felt myself not to be a monetarist; I felt much more to be in favor of appropriate macroeconomic policy including monetary policy. But I gave, if anything, more emphasis in the work in the Bank to fiscal policy than I did to monetary policy, feeling that the Fund's primary responsibility to do monetary policy, although obviously there was an interconnection between the two, and we got into the interconnections on frequent occasions. But with respect to fiscal policy, I felt that the Bank's particular role was to help formulate programs in which the public investment requirements were adequately taken into account in the formulation of both the near-term and the medium-term programs and the preparation of a financing plan for the implementation of those public investment programs. In that sense, I suppose I was closer to the structuralists. But I always was very much aware--I think the whole department was aware, our whole department was aware--of the need to prepare adequate financing plans coordinated, integrated, coherent with respect to the monetary policy elements of the Bank.

LEWIS: Did the Bank have any kind of interface and exchange with ECLA [*Economic Commission for Latin America*] at all?

ALTER: We had some continuing relationships with ECLA, but it wasn't as formalized as it was with the Alliance for Progress agencies in Washington. Whenever staff would go to Santiago, they would stop in at the ECLA office, and from time to time we would have discussions here with ECLA people who came up, but there was never a very, very--there was never any week to week, month to month coordination.

LEWIS: Now, during this period, your countries down there were experiencing some pretty big political upheavals. What did that do to the operations of the Bank, the Bank's operations? How did you cope, in a sense, with what happened in Brazil, Peru?

ALTER: Well, we--to be absolutely frank with you, I don't think the Bank at that period was attaching any great importance to the questions of democracy versus dictatorship, human rights versus oppression, these strictly what we might call "political aspects." We definitely were interested in the economic impacts of the political changes that were taking place.

We had--I think at that time; maybe others would disagree—a fairly narrow, a fairly rigid interpretation of the Articles of Agreement that the Bank was concerned with the economic problems, it was not to invade the political area, not to make judgments based upon political factors. But we were very much concerned about the impact of the political changes on economic policies. And in our assessments of the prospects of a country, we took into account, we tried to take into account the best we could, the political constraints that resulted from these prospective and actual political changes. We tried to take into account the movement of pressure groups within the society in favor of one course of policy action versus another.

One of the lessons I think that we learned was that dictatorships were not necessarily any more decisive in resolving difficult economic problems than democracies were. The old saw that it takes a dictatorship to resolve these problems just turned out to be completely false. And we recognized that, I think, at a very early stage. So we--in both cases, we would try to examine the forces that were operating to determine economic policies and take that into account in our evaluation and in our recommendations. Of course, in some instances we had to say that the prospects were so poor for any--the forces that were working the economy on the economic side were already so poorly adapted to meeting the problems of the country and the prospects of change were so poor that we could operate only to a very limited extent in that particular country and then, if things turned up, we could change our position.

When Mr. McNamara came in, I think there was a tendency to prepare the ground on a more systematic basis for operating, even though the conditions at the present time did not seem to be very favorable. There was a distinct break, I think, at that time in terms of his emphasis on lending targets and heavy project preparation work in countries so that if

there was a break on the policy side, we could--we were offering a carrot, in a sense, to improve the policy.

LEWIS: When you say policy, do you mean politics?

ALTER: No, policy--economic policy. Not politics. The whole question of integrating their whole policy mix: pricing policies, wage policies, macro, fiscal, monetary, their whole development program, the size and direction of their investments in the public sector particularly, their use of credit institutions (official and private) to channel resources into sectors, the whole question of tariff policy, foreign exchange rate policy, the whole policy mix.

LEWIS: We have--so far we have had one interview with McNamara, we are supposed to have others, but he was emphasizing in that interview that he had been onto a policy emphasis way back then when he first came on board.

ALTER: That's right.

LEWIS: It isn't something that was delayed until 1979.

ALTER: That's right. When he came on board, you know, he very definitely, right at the very beginning, he established that he was very much interested in that. Our mode of operation in the Western Hemisphere Department at that time was very well adapted to his approach in that respect. I had some differences with McNamara, which we can discuss if you want, but I think in that respect there was absolute unanimity.

LEWIS: I want to get to those differences and also to sort of get you to talk about the series of presidents that you have worked under. Let me just, before we do, though, ask you, thinking about these operations through the '60s and the '70s, about relations with the U.S. government. You've mentioned AID, and that certainly . . .

ALTER: That was State Department, AID.

LEWIS: State Department AID. I guess what we're reaching, wondering about, is whether there were any kinds of pressures that you felt were excessive or unseemly or did the U.S., on this regional basis, play a pretty heavy hand, try to play . . .

ALTER: Yes. The U.S. was very much interested in Latin America under the Alliance for Progress, obviously, somewhat less interested, but still interested, in the prior period. My recollection is much more the Alliance for Progress period. Don Palmer was at AID on Latin America and we worked very closely with Don. In fact, Walter and Don and I frequently saw eye to eye on a lot of issues. And at the lower level, I think the staffs also were working quite closely on the telephone and in meetings in trying to formulate kind of joint positions with respect to the policy changes that we thought were important in a particular country and on the size of the external financial assistance that might be provided depending upon their response and their plans on the policy side.

I did not feel at that time--maybe it's because I'm American; I don't know--that the political pressures being applied by the United States were terribly overriding. Obviously the United States had its strict political interests in one country rather than another. And one could be aware that they would treat somewhat differently, let's say, the second Central American countries than they would the Southern Cone countries, and Chile somewhat differently than they would Columbia and so forth. But I did not feel, personally, at the time, that those pressures were overriding.

LEWIS: Who were the assistant secretaries? Was Linc Gordon one?

ALTER: Lincoln Gordon was there for a time.

LEWIS: Ed [Edwin M.] Martin?

ALTER: Ed Martin was there for a time.

KAPUR: I was wondering what you were saying about relations with countries, I mean, here you have in the late '60s and the '70s when you had these sort of military governments which are really [*inaudible*], and sort of two cases that were somewhat different in Peru and Brazil, for example, one sort of left, in the case of Peru, and the one case more right, relatively. And Peru, if I am not mistaken, nationalized the foreign companies at that time. That sort of did bring some pressure, especially in U.S., on Peru.

ALTER: Let me go back to that. You know, my recollection of this Peruvian thing is a little bit rough now. As I recall, in Peru the--wasn't the big nationalization issue--in Chile you had the copper companies issue later, and in Peru . . .

KAPUR: Vargas?

ALTER: No, no, I was trying to remember now. I recall that, you know, we had--this is a more general point, but it's related to the one you're taking--we had the policy in the Bank of insisting that adequate progress be made toward resolving disputes arising out of defaults on external debts or expropriation of private properties. That was kind of a general policy. And there was a period, I believe in Peru, when that issue, that adequate progress was not being made and we did not make very many loans.

LEWIS: There was also a block at the same time in U.S. bilateral relations.

ALTER: I think so, too. In this respect, the agencies, the Bank and the U.S. Government, were pursuing similar policies. Now I do not believe that the IDB was pursuing that policy as consistently, but my recollection is a little bit hazy. I am sure that the U.S. was putting some pressure on the IDB in this respect. They may have been putting pressure on the World Bank at a higher level than mine to make sure that we adhered to that policy. But I never felt that as something that I had to do, make decisions about in terms of--we had open discussions in the Bank with the legal department, with

other departments about the application of that policy and whether adequate progress was being made. This was a general policy which was accepted and so the dialogue could take place on the basis not because of political pressures but on the basis of what is the facts: what is the progress that is being made, what are the prospects that it will continue, et cetera.

Now, in the case of Brazil, we started to mount--we hadn't been lending to Brazil for many years. I don't know whether you're familiar with the history. The Bank had pulled out of Brazil as far as new loans were concerned; I can't remember precisely the year. I started to get heavily involved in Brazil when a dictatorship was in effect established. And we worked with the appointees, the civilian appointees primarily although some military people, on their economic policy packages. There were ministers of finance, like Delfin Netto, for example, who came into office at this period. He was a professional economist, had many points of view similar to ours. They were moving more and more away from rigid exchange rates, completely unrealistic exchange rates. They were receptive, at least, to discussions about changing government-fixed internal prices such as in transport and public utilities and all the rest. So we got into a substantial dialogue with them on that basis and gradually built up our lending and on the project preparation work in Brazil.

In Peru, my recollection is a little bit fuzzy. I have clear recollection of certain incidents, but I--including the period when . . .

LEWIS: The military coup must come about 1970.

KAPUR: *[inaudible]* I should know. Richard *[Webb]* should be here.

ALTER: Maybe we'll defer that to another day. My recollection is really—I got involved, personally involved--we had an economic mission in Peru and I remember I went down and joined them in the period when the Social Democratic or whatever the party was called at that time, came into office, after the dictatorship.

KAPUR: I guess already in the early '70s.

ALTER: Yeah. But the '60s period is a little hazy. Let's defer that for a moment.

LEWIS: I remember that a bunch of these military officers came to the Woodrow Wilson School to be sort of briefed about how one runs a proper economic program. Shane Hunt--you don't know Shane Hunt, but you may; he was a friend of Richard's who was on the faculty, he was a Peru specialist. And that I think would be about '71, something like that.

KAPUR: So how did—in the case of Brazil you have the opposite thing where in the early '70s, McNamara starts to push for sort of the "softer" sectors: poverty, perhaps *[inaudible]* inequality and so on. Did that have any impact?

ALTER: That had a very definite impact, needless to say! Some of us felt, and I guess I would include myself in that, that at the beginning it seemed pretty much to be *[inaudible]* [laughter] and it only became evident over time that he was taking this stuff pretty seriously. Now I always, personally--I am just giving you my own personal views on this one—I personally took the view that while one should very much be concerned with issues of wage policy and agriculture, which had the impact of, particularly where large parts of the poorer population lived and worked, one had to be very conscious of the impact on those groups. And that goes back for a long period of time. But my own focus prior, let's say, to McNamara's coming here and for a considerable period while he was here was that the best way in which to tackle the problem of economic development was to put in motion forces that will really lead to economic growth and not to be overly concerned--in quotes "overly concerned"--with the distribution of the benefits of that growth. I took a much more laissez-faire attitude toward the distribution of benefits than I did to the policies that would lead to the growth.

Well, I think McNamara produced a real shift in this. He really—he was concerned about the economic growth, but he felt that simultaneously you had to do something about the distribution of benefits. And progressively, during the period that I was in LAC and later, I guess, even more so, he emphasized that aspect of poverty, particularly in terms of what I would call the "project approach to alleviation of poverty," which I really don't have much confidence in. And I still thought, even at the end, that it had a heavy element of . . .

LEWIS: You mean integrated rural development kinds of things?

ALTER: That's right, that's right. And I don't really think that this is going to make all that much difference because of the severe administrative burden that such types of programs impose upon weak governmental structures in most of these countries. Now, over time you could build something up, but it's a very slow process.

I remember well the discussions that we used to have in Columbia with Enrique Penalosa, who was head of their land reform rural development program. He was a very well meaning person and, I thought, a competent guy. But the problem that they encountered on the administrative side in really doing very much, as well as the political pressures in the country of Colombia--you have to overcome both; you have to overcome the powers of vested interests and you have got to overcome the administrative problems in the bureaucracy.

I think this is still an unresolved issue. I don't know where--if I were to study the problem again today, I don't know where I'd come out on the question. I know a lot of work has been done on the Bank--I see papers and seminars and all kinds of things going on all the time. And, of course the situation varies from country to country to a considerable extent. The urgency, the priority that has to be given, is obviously different in a country like India than it is in a country like Venezuela. Completely different due to *[inaudible]* Similar problems exist at the micro level, but the extent of the problem is so different in

various countries that the priority you give it in your total balance in operational programs is completely different.

KAPUR: But did that sort of affect the tone or the style of the relationship with the Brazilians? I mean, did they sort of stiffen their backs against this or did they . . .

ALTER: No, I think—my feeling was at that time—well, I'm not--my recollection is not too good on this, but just let me--I happened to discuss it recently with Bob [*Robert F.*] Skillings, who was our division chief on Brazil at that time [*inaudible*] But when he was there, they were--and that was after I left--the whole problem of the Amazon development came up. And you had this migration that was taking place—a safety valve, really, a voluntary movement into this Amazon region. And the government decided, he tells me--this was a little after my time, you see--that the government decided to have more of a promotional effort in bringing about the migration to the Amazon region. This was partly in order to alleviate the poverty problem. It was thought that assisting migration with rural infrastructure being put in place, et cetera, et cetera, would help. Well, in fact, they paid lip service to it, apparently, but they really didn't do a hell of a lot. Now, this is still a matter of great controversy. The Bank has been criticized, I gather, in public on this.

But during my period in the vice presidency and earlier in the Western Hemisphere Department, we were concentrating our attention so much on kind of the what we might call the "essentials of macro-policy improvement," in coming to grips with inflation and permitting some semblance of reasonable price relationships in a fairly high inflationary environment, trying to do the second or the third debt on that side. We never tried for the first debt because it was impossible, politically impossible, but just trying to get some order into that situation and working at the project level in complementing those efforts, that I don't think there was a strong--this is prior to McNamara now; I'm talking about the period prior to McNamara—I don't think there was a strong impulse simultaneously to kind of subordinate that emphasis to the poverty issue or any of these others. They were in a subordinate, definitely in a subordinate role.

LEWIS: Was that sort of difference over the priority assigned to equity issues your principal difference with McNamara?

ALTER: No, no. I never really fought that at all. I never had really a major difference with McNamara except on the score that I felt at the time--and looking back on it even more so; now this is hindsight, so you discount what I am saying, okay?—at the time I felt that he was so intent on reaching lending targets which were announced publicly and were designed, I'm sure, in his mind, to help him get substantial capital increases out of the Bank's member countries and IDA [*International Development Association*] appropriations out of IDA's member countries, so they served a purpose from his point of view, so I'm not—and I appreciated that at the time, even though I was oblivious to this. But I felt that this led to, in a few instances, his saying, "Well, let's go ahead anyway."

If I had any difference with McNamara--and there were a very few cases, that were not--that does not mean, however, that he may not have felt that there was a big difference with me because our lending programs that we sent up to him always had fairly explicitly stated what the conditionality was that we sought. We tried to have, if I can recall correctly, two-tier lending programs or three-tier lending programs depending upon--I am not absolutely certain about this [chuckle] In fact, let me put it this way: in some countries we did that. We did not do it generally. In many countries we just didn't think it was worthwhile to have more than one lending program. But in some countries we tried to indicate which things we would put into our first tier and what we would put into our second tier, and depending upon our policy understanding with them and the actual progress of results and events as they occurred and the ability to adjust to these external things that occurred. So that's about the only real reservation I had at the time, and it wasn't a very strong reservation. In fact, it's become stronger after I left the Bank and I have talked to the people who were in the Bank in the subsequent period.

LEWIS: This business about targeting is certainly one of the subjects of tension in that whole story.

ALTER: And I'm sure you're getting this from all over.

LEWIS: From all over, nearly from everybody more or less it seems to be as your saying, except from McNamara. [Laughter]

ALTER: He doesn't *[inaudible]*

KAPUR: He dismissed it. Well, because he always believed that you can do more of both, as well as . . .

ALTER: That was his position all the time I was there. He would never concede. He made it so crystal clear that in his thinking that the two were absolutely complementary. And there is a complementary element, but in specific cases it is not necessarily the dominant thing.

LEWIS: What about the--you must have known *[Eugene R.]* Black pretty well?

ALTER: Very little, no, very little. See, I was an economist in the Bank during most of Black's period and got in, I think, to the Western Hemisphere Department as an economist towards the very end. I really never felt that I knew him. George Woods more so. George Woods appointed me to be Director of the Western Hemisphere Department when Orvis Schmidt died, and so I got to know Woods a little bit. But I never really got to know Black.

LEWIS: That's interesting because you come on as, when one begins to tune in on this story, as a really major player through the '60s and the '70s, running things, really, having to do with Latin America. And if that's not all wrong, then the fact that you don't really feel that you knew Woods all that well, suggests that there was a lot of discussion . . .

ALTER: No, no. That's not right at all. Burke Knapp was my boss. Throughout this period, Burke Knapp was really in the saddle, during the whole period of Black and Woods, to a lesser extent under McNamara. But Burke was really the guy who called the tune.

[End Tape 1, Side A]

[Begin Tape 1, Side B]

ALTER: I mean, the macro policy problems in countries like India and—well, Indonesia had a little bit more—but for Asian countries in general there was much, it was a much less serious problem. There was some--I can point to specific countries throughout the world that had very similar problems. Turkey, for example, had very similar problems. There were several others that had these problems.

LEWIS: Philippines, maybe.

ALTER: Philippines, yeah. So you found them everywhere, but they were so general in Latin America, with the exception in that early period of Central American countries, really. Mexico was in between, and they became increasingly to have this problem. I had a lot to do with Mexico; that was one of my major areas, countries of interest.

LEWIS: Was there anything growing out of the '70s and the first oil shock--you mention Mexico, and I was thinking about recycling Arab oil earnings and private lending and all of that and the big buildup of debt.

ALTER: Yeah, that was, of course, the period--I really left at the time that that stuff was really getting going. The big build-up in commercial debt for Latin America, if my recollection serves me correctly, took place in the period from about '74, '75. Isn't that right?

LEWIS: That's right, that's right.

ALTER: It was starting, however, during this period. And we were, at that time not--we were concerned but not overly concerned, I'm afraid. It seemed to be going to countries like Mexico, where we had a fairly favorable view of their economic prospects. We were concerned--I remember chairing a meeting after I left the Latin American region with the Mexican officials who came here. And I--we called for their edification.

My earlier experience was Venezuela. I was involved very strongly in Venezuela after the *[Marcos]* Perez Jimenez government fell. I was the assistant head of the survey mission that went to Venezuela. And during the period of the high oil prices, during--and big increases in output--during that period, Venezuela really went hog wild on--blowing it, you know, on the investment side and then they left the, when the democratic government came in, it was left with just a terrible situation to unravel.

And I said that Mexico faces the same kind of a problem. They face--from one point of view, fortunately, great immediate prosperity, but they could very easily blow it. We devoted much of the discussion at that seminar to that, and actually, as it turned out, they blew it in spades because not only did they invest all this increase in resources but they went ahead on a borrowing binge which was just terrible. And this temptation of governments--whether they be dictatorial, democratic or what have you--to take advantage of those opportunities to really go all out in terms both of growth and distributional objectives--this is what Mexico did. This was after I left the region, but this is my observation. And I knew--this seminar I was telling about was held in '76 or '77 before I left the Bank--and it was perfectly clear at that time that that was the real danger that they would do that.

KAPUR: I'm sorry. I guess you were still here through '78.

ALTER: Yes, I left in June of '78, I think.

KAPUR: And then you were advising Burke Knapp on matters related to finance and so on. Do you have any recollection at that time if there were any warning bells by anyone, whether in the Bank or outside, as to, you know, all the borrowings that were piling up in Latin America? Were there any . . .

ALTER: I wasn't involved on the external financing at all. I was involved only on the Bank's approach and the country's approach for providing finance through the private sector, through intermediaries within the country and the policies that were followed--interest rates, credit allocations policies, et cetera. And we came up with a report which was discussed with McNamara recommending some changes in the Bank's position.

By the way, ten years later, as a consultant, I became involved this past year on an almost identical job [chuckle] going over the same territory, advising more or less the same changes that we had put forward 12 years earlier, 11 years earlier! It remains to be seen whether we will be more effective than the earlier one.

KAPUR: *[inaudible]* DFC *[Development Finance Companies Department]*?

ALTER: Yes, it included DFC. In fact, I didn't mention in my brief review of my responsibilities in the Bank, I operated for Burke for a while as supervising the work of the Development Finance Companies Department, as well as doing this job on the preparation of a policy paper in this whole field of lending through intermediaries, so that I had that aspect in my experience, too. And we put out--the work that I did never led to a revised Operational, what we called an Operational Manual Statement. The work that I did this time as a consultant led to the preparation of such a statement that's now called an Operational Policy Directive, on which they've met just this past week and I think which will be issued soon.

LEWIS: I would undertake to answer your question to . . .

ALTER: Oh, I don't think--from my knowledge, my present knowledge and my present recollection, my impression is that in the period between, let's say, 1975 when I stepped down from LAC and '78 when I left, there was not a great emphasis on the dangers, although I'm sure that every economic report that you read during that period—I'm not sure; I suspect--that every economic report that was written during that period on such countries as Mexico would point to this as a danger. The question is how heavily did we follow up on that in our discussions with the countries.

LEWIS: It was not really perceived as a great anxiety in the aggregate, I think, until the second oil shock, that OECD [*Organization for Economic Cooperation and Development*] estimates were very . . .

ALTER: What year was that?

LEWIS: In early '79. It was then that you got the resumption of stagflation and [*Paul*] Volcker was put in and interest rates--that's when everything hit the fan.

ALTER: That was after my time. But a lot of the borrowing took place between '76 and . . .

LEWIS: Oh, yes. And the hooker was that it was with variable interest rates.

ALTER: That's right. It went way up when Volcker increased the interest rates in the United States. No, that was a big impact and I wasn't involved in that and I'm not too familiar with it, what LAC was doing in that period.

LEWIS: Let me ask you about the Chile story, the [*Salvador*] Allende and all that.

ALTER: I was involved in that. I was sent by McNamara to Allende soon after he got into power to see whether we couldn't work out the basis for at least one loan. The copper expropriation was taking place. McNamara did not feel that Chile had gone so far in deciding on compensation or not compensation that this was a bar to continue to make lending to Chile. I'm sure there must have been some disagreement with him on that score. I did not disagree with him. So we went--on his instructions I went to Chile to see whether we could work out a basis for at least one loan in a field where we had been quite active, namely the power sector. We had discussions—I had discussions and the team that was with me had discussions with the Chileans about what their plans were for the power sector, how they viewed particularly the tariff problem, power rate problem, in this highly inflationary environment. And we met a complete impasse. They were not willing to consider any kind of discussion on tariff adjustment, rules for tariff adjustment; they just were a blank wall. And I came back and reported this to McNamara. At that time, we never went ahead with any loans to the Allende government. I think--but I can't be absolutely positive, now; I can't recollect--I don't think we ever did make a loan to the Allende government before it was overturned. I think that's true. But he had decided to try to do something.

LEWIS: This wasn't the case of the U.S. Treasury blocking it, was it?

ALTER: No, no, no. It was just that we couldn't get a--they may have talked to McNamara and blocked it, I don't know! I can't--but you'd have to check that one with either the Treasury or McNamara, but I never got any of that side. I went down sincerely trying to see whether there was a basis for making a loan. We had, in an inflationary environment like Chile's, we had a clear-cut policy in Latin America of insisting upon some kind of an adjustment process for rates in the power sector. We were not prepared to make loans to power enterprises that just did not have any prospects for becoming financially viable. And they just weren't willing to discuss it.

KAPUR: It sounds like you rather [*inaudible*] or what we've heard [*inaudible*] was not at all happy with [*Augusto*] Pinochet and so was not [*inaudible*]

ALTER: Later. That was after my time. When did Pinochet come in?

KAPUR: '73 in a coup.

ALTER: Oh, it was that early? Yeah, I was there for two years after that. Let me refresh my memory. What happened? You know, this is all very vague in my mind. It was almost 20 years ago, and I don't really remember what happened in those early days of the Pinochet regime. I don't think we--we made a loan, but over a long timeline, I believe. Is that what the facts show?

KAPUR: Yes.

ALTER: And yes, I think you're right, now that I think back on that period. I think McNamara was not pushing anything for Chile. He wanted to kind of see how things went. And I don't really remember when we started up operations in Chile.

LEWIS: He may have had fairly strong feelings about the politics in some of the countries.

ALTER: Oh, he did. Much more so than Woods or Black or any of those guys, at least explicit overt reactions, let me put it that way. He was much more vocal in his--and maybe frank--in his reactions on this score than his predecessors.

LEWIS: I did a review of the Bank's history in Pakistan for Shiv Kapur and got reading those CPPs [*country program papers*] in the middle '70s, and here you have the [*Zulfikar Ali*] Bhutto government which was talking the same kind of populist rhetoric that McNamara was talking, and you might expect that there would be a certain [*inaudible*] pretty turned off by what happened in Bangladesh at that time. This was a little thing--that reviews the CPPs, you know, just him and Burke and maybe one other or something there, and he just, you know, put the lid on this country. There was a very sort of gut . . .

ALTER: That is very revealing. I suspect that he did the same thing, but I don't remember. You'd have to look up the facts. How much are you--you're getting access, I suppose, to the minutes of those meetings, but sometimes they don't reveal the whole truth.

LEWIS: That's right.

ALTER: And they don't reveal McNamara's personal role in the . . .

KAPUR: You don't recall any sort of personal case where you were arguing a case and he expressed . . .

ALTER: Violent objections to going forward? Yeah, I do remember one. Was it during his term? I'm not sure. It was Haiti. But I think it was, I think that was maybe under Woods, I'm not sure. No, I think that was under Woods, and it was much more Burke Knapp on that one. I remember he and I went over to the State Department and had discussions with the State Department on Haiti. And I was getting pressure from my people who were working on Haiti that we ought to do something on Haiti. This was, I think, maybe soon after Baby Doc [*Jean-Claude Duvalier*] came into power; I'm not sure. We hadn't been doing anything in Haiti for some time, and the people in my division that were involved in Haiti wanted us to do something, and I kind of supported them. And then Knapp and I went over to see people in the State Department. I remember we had a discussion, and they were obviously not very enthusiastic about it. At the time we did not go ahead, then. That was one of the occasions where you could say the pressure of the U.S. did have an effect. But it was basically on what the prospects were for the policies being carried out. It wasn't on the level of, you know, "We want you to take into account the fact that this is a dictatorship," et cetera, et cetera, you know. It was much more on the economic aspect.

LEWIS: How about pressures from other governments? Were the Latin American governments . . .

ALTER: The Canadians were always very interested in the—oh, the Latin Americans?

LEWIS: Yeah, the clients.

ALTER: The clients were, during the period of the Alliance for Progress, I suppose you could say that the OAS people who participated in this review were reflecting the broader views of their Latin American members. And certainly with respect to the Inter-American Development Bank, there was absolutely no question that they took a very, very heavy role on them. In the World Bank, on the Board--that's where we feel the most direct impact--there were, there are, of course, Latin America Executive Directors. During much of my period the former president of Columbia was an Executive Director and a very reasonable guy. And there was the, you know, [*inaudible*] There was questioning of the staff about this.

And the contact between the Executive Directors and the department directors or the regional vice presidents, during my period, was not very great. I never felt any kind of direct pressure from them. Now what Burke felt and what the President felt or other people, I don't know, but it did not impact on me. It probably impacted more on the staff at the working level, actually. They got in touch with them and talked about information that was needed for certain projects, but usually on instructions from the countries that they represented.

What feel did you get about other regions on this?

LEWIS: We haven't talked about this as much with other present or past regional vice presidents, I think, as we have just in this last hour with you. We talked to *[Attila]* Karaosmanoglu about Asia currently.

ALTER: You're bringing this history up to what year?

LEWIS: 1991.

ALTER: Oh, you are? Right up to the . . .

LEWIS: That is, we have this sort of blanket access to everything on site until the end of next June. After that, it's by the sufferance of the general counsel or whatever, and there's a sense that current business might be sensitive, but otherwise, we have just about total access. We probably won't be *[inaudible]* won't finish writing until about '93, so if something happens in '92, well . . . But it will thin out beyond that time. We haven't yet talked to anybody about EMENA *[Europe, Middle East and North Africa region]*. As I say, Asia, we've—we obviously are very much concerned about Africa, and we haven't talked to Kim *[Edward V.K.]* Jaycox yet, but we certainly will.

ALTER: Let me make a few comments about structural adjustment loans.

LEWIS: Please.

ALTER: I got involved after I left the Bank as a consultant. I did the--for a few years after I left in '78, I was doing, sort of so to speak, "work without pay" for the Bank as a consultant. I did some assignments, one of which was a review of the first structural adjustment loan the Bank had made to Turkey.

LEWIS: This was a review for which part of the Bank?

ALTER: OED *[Operations Evaluation Department]*. The first or maybe the second. And then I got involved later on, just more recently—you see, I didn't realize you were taking this all the way up to the present--I got involved with John Holsen last year--two years ago?--on his assessment of the structural adjustment lending of the Bank. I'll be glad to give you my views.

LEWIS: Please!

ALTER: I also headed an appraisal mission on a structural adjustment loan to Mauritius, one of the success stories, one of the few success stories. You know about that one?

KAPUR: Yeah, well, it's been very well [*inaudible*] relative to Africa.

ALTER: Yeah, though I'm not sure that it's the World Bank [*inaudible*]

Anyway, I have had a little bit of opportunity to get involved in the structural adjustment thing, and I must say I think it is in this field particularly where the whole question of how you maintain an appropriate conditionality structure and lending targets is most--I really feel that the top officials in the Bank have been absolutely unable to confront this issue squarely. And I think that the outside world recognizes this to an increasing extent.

LEWIS: It sounds as if you are serious about conditionality, then you can't commit yourself to structural adjustment?

ALTER: That's right. It's as simple as that. And you can't indicate—you cannot--it isn't a question of what you say to the particular country. It's if you are emphasizing in the aggregate your lending targets, aggregate lending targets, the countries are going to, the big countries, not the little ones but the big countries are going to recognize right away that you don't have any bargaining power with them. They are just going to ignore you completely and go their merry way.

Now, I don't really believe too much in the power of external financing agencies anyway. I think it's really a question of finding people in the country with whom you can work and give support because you believe in what they are trying to do and what the policy they're pursuing. But you undermine them, you undermine them when you--when their opponents think that the Bank is going to go ahead anyway.

LEWIS: Absolutely.

KAPUR: Do you have—I mean, I guess I am sort of interrupting a little bit—do you have—because the OED reports are always somewhat sanitized—I'm wondering if you have your original thing, the report that you have written on the Turkish SAL, if perhaps we could get a copy, which hopefully is not as . . .

ALTER: I'll take a look in my files. I may or may not have it, and I don't really remember very well even what position I took. But I'll take a look in my files.

In actual fact, there were some of my points that were—oh, let me say that Ernie [*Ernest*] Stern, who was involved in that original first loan to Turkey, almost said at the Board meeting that this was not, this first loan was really not the typical SAL loan. And I think he was talking out of both sides of his mouth when he said that. He, in effect, said, "Well,

this loan is more of the old program loan type and we're putting it into the SAL structure," you see.

LEWIS: The [*inaudible*] started in the late '70s under OECD [*Organization for Economic Cooperation and Development*] auspices, I think, wasn't it, that [*inaudible*]

ALTER: I went to one of those meetings once in Paris. But what I was going to say is that he would say, "The ordinary conditionality that we would have in a structural adjustment loan really isn't present here so don't press us too hard," implying that the old program loans didn't have that kind of thing, which is completely false because they were supposed to, also. Now, many of them didn't, in fact, but they were supposed to. That was part of the philosophy.

I once wrote an Operational Manual Statement on project and non-project lending. Have you ever seen it?

LEWIS: No, I don't think so.

ALTER: I recommend that you take a look at it. It was one of the last jobs I did for Burke Knapp. It's not in there now. I think it's been taken out. [Laughter] In which I tried to gently cover up this conflict, you know, between—I'm pretty sure it's not in the latest, that version, but you'll find it in the files. And I also wrote an abbreviated version of that for the Bank's monthly publication.

KAPUR: *The Bank's World.*

ALTER: Yeah, called the—what in the hell was it?—project and non-project objectives or something. That was still while I was working for the Bank in '77 and '78. This kind of reflected my thinking at the 85 to 90 percent, not completely because I was obviously adapting to what you could say at that time on what we were doing in this whole area. This was before the structural adjustment loans really took hold.

LEWIS: Well, I think what you've been telling us is that you were doing more conditioning of even project and some program loans in Latin America than . . .

ALTER: We did not do program loans.

LEWIS: You did just project.

ALTER: The only program loan we almost did--but I think it wouldn't have been done--was really done by the U.S. government in Columbia. I went to Columbia and worked with them in developing a program on the basis of which the U.S. government made a program loan. But we have--Latin America was not a country, was not an area in which program loans were common at all. I think--I'm not sure we made even one. Structural adjustment loans, of course, were different.

LEWIS: Yes. I guess the issue is sort of whether that somehow is a brand new thing or whether there had been previous loans made that had some of the same kind of conditionality built into them. You're saying that in the Latin American case, you were conditioning, macro-conditioning, even project loans.

ALTER: What we were trying to do, what I was trying to do, was to prepare a program of project loans. And you talked about the size and composition of the program and made the macro discussions part of that project. And you'd work out letters of understanding with the country, and the letter of understanding that we would get would sometimes be the same letter of understanding that the U.S. government would use on its program loan for the country. That's what happened in Columbia. Not very often did this happen, but it was that kind of an idea--the expansion of this Columbian experience--that I had in mind. And then McNamara came in, and then we got into a much broader approach.

LEWIS: You haven't said anything about the, your interaction with or not with the concentration of economists, the Hollis Chenery type of things. I would guess that, in terms of your feelings about equity issues, priorities, that you had some differences with the thrust of that group.

ALTER: Yeah, yeah, we did. We felt that, you know, that they weren't giving--actually, it never got to much of an operational significance because they really didn't intervene very much. I remember Hollis going with me on one trip--where the hell was it? I can't remember now. He was never—he was not trying to influence us to any great extent in terms of the composition of our program, our lending program, concentrating or putting in rural development projects. That came from other parts of the Bank.

LEWIS: But he did, remember, come out with this notion of "poverty weights" in appraisals that said you would give extra brownie points to the benefits, you'd double the weights of benefits that were going to people . . .

ALTER: That was after my time.

LEWIS: Really?

ALTER: That was after '78, or at least it never--I don't recall it impinging on anything.

LEWIS: I think the point is that it didn't impinge on much of anything! It was written up in this book, *Redistribution* . . .

ALTER: Oh, I'm sure he had these ideas.

LEWIS: And it sent all Harvard up the wall, but I don't think it ever really . . .

ALTER: And I really--during that period I was so busy on the operational side that I never really had a chance to absorb a lot of the literature that they were putting out. I've read more of it since.

KAPUR: You said that the pressure actually came from other sources in the Bank but not . . .

ALTER: Yeah, we had a rural development group on the project side. What was his name?

LEWIS: Monte [*Montague*] Yudelman?

ALTER: Yudelman, Monte Yudelman, sure. He was there. So we got some pressure from him, and we developed some projects in this area. But that's where we felt it, much more in the—you see, this goes back, I think, to the days of the old Western Hemisphere Department. Or was it the early days after '75? Well, no matter. In any case, these guys were—the various project groups had an influence on the composition of our lending programs, and they came up with their suggestions on what should be included in the lending program. And I'm sure that in several countries--I'm trying to remember which ones now--we accepted their recommendations and formulated and promoted the preparation of projects in the field in that rural development area.

KAPUR: That was the staff under Warren Baum, Central Projects staff.

ALTER: I think at that time it was, I think it was still central. It wasn't regionalized. That's my recollection. It was in the earlier period, before the McNamara reorganization, but even after that he kept it for awhile. I think that was one of the reasons why he kept it. He felt that he wanted to push that kind of thing and it could be done easier by putting it outside the regional set-up than inside. I think you're right about that.

LEWIS: You got into thinking about sort of new type programs--quite a little urban work in Columbia.

ALTER: Yeah, there was quite a bit of work. We also got into, by the way, population policies during my period. That was something I was all out for. I was very, very eager to push that, and I agreed 100 percent with McNamara.

LEWIS: You were right with him on that.

ALTER: Yeah, I really was.

KAPUR: How did that sort of jibe with the predominantly Catholic . . .

ALTER: It didn't go well at all. [Laughter] No, I don't think we got very far with it, but I sure wanted to try, I'll tell you.

KAPUR: Do you recall any sort of like vignettes when you tried to push this? McNamara, in effect . . .

ALTER: Well, I went with McNamara on a trip to Latin America--Brazil and Argentina. And I remember him bringing up that issue with the Argentine dictator. What was his name?

LEWIS: [*Juan D.*] Peron?

ALTER: No, no, post-Peron. Oh God, what was his name?

KAPUR: One of the generals?

ALTER: Yeah, one of the generals. And he got nowhere.

KAPUR: He told us—he said that he had given a speech earlier on population, and when he went to Buenos Aires he and his wife were greeted . .

ALTER: She was there, too.

KAPUR: . . by the governor of the Central Bank of Argentina and his wife. And his was, "They damn near spat on us!"

ALTER: That was a very difficult trip for him, I'm sure, but I was all in favor of what he was trying to do. I don't think we—but we did have a few instances where some progress was made. We had some family planning projects in Latin America that got off the ground.

LEWIS: Mexico began to move on that.

ALTER: Yeah, and Columbia did, too, but it was spotty, very spotty.

You started to go into this urban field.

LEWIS: Yes.

ALTER: I think the urban field really took off big after I left, but on all the big missions that we had and reviewing the investment programs, we would certainly look at the urban side. And we started to get involved—well, I remember the Mexicans wanted us to get involved in the Mexican subway, and I think we turned them down. I can't remember now why. Oh, I think they--I am not sure they ever really followed up on their initial request.

LEWIS: [*inaudible*] Calcutta subway, too.

ALTER: Yeah. I think there was a period where we were kind of opposed to subways almost on principles. We were in favor of urban transport projects, but not particularly the capital-intensive subway type.

LEWIS: The fear that it would become a vast dormitory!

KAPUR: That was the fear.

ALTER: That was the fear. Has that been expressed to you by some of people you . . .

LEWIS: Oh, I heard that many years ago, and I think that was really the fear.

KAPUR: [*inaudible*]

ALTER: I must say they've done a pretty good job on the Washington subway.

On the urban side, I'm trying to recall now what kind of issues came up. Oh, well, oh yeah, sites and services. Of course. So, this was what I was involved in.

KAPUR: Jaycox was.

ALTER: Yeah, sites and services projects. In many of these countries we were actively developing sites and services projects. And I thought that was quite a sensible approach, and I was all in support of that, and we--I don't know how it all turned out; I never read any of the project completion reports in this area, but I thought in concept it was very good. And it's still being pursued, I guess, but not as much.

LEWIS: My sense is that the urban commitment is down quite a bit at the Bank.

KAPUR: Like all of the other things which I guess you refer to as the "rise and fall" of fashions.

ALTER: And why? Why does the fashion come and go?

LEWIS: Environment is the big fashion now.

ALTER: I was just talking to--do you know Hans Adler? You know, Hans has been--you should talk to him, have lunch with him one day. He was a colleague of yours at Harvard, wasn't he?

LEWIS: Yes.

ALTER: I never knew him, but I knew you. We talked about that the other day. He is preparing a report in answer to the environmental critics of the Bank on the Amazon.

LEWIS: I see. That would be fascinating.

ALTER: And he's gone over all the project completion reports and trying--on all the several projects in the Amazon region--and is trying to prepare an assessment of the

criticisms and of the Bank's own assessment of the Amazon region development and the Bank's reports on it.

KAPUR: Has he been asked to do this by the Bank?

ALTER: By the department concerned, the LAC.

KAPUR: But he's not a staff member.

ALTER: No, he's a consultant, but he has been. He was a staff member; he's now retired and consulting for the Bank.

KAPUR: I've always been curious to see the difference between initial reports which the consultants give and the one that comes out . . .

ALTER: After sanitization, which is why you were asking about that. I'll see if I can find that one for you. My impression is that in this one there was not a great deal of difference, but I'll--if I have a copy, I'll try to get it copied and send it to you.

By the way, there's a more recent SAL on Turkey. It covers all five or six . . .

LEWIS: That's Bill [*William*] Branson's idea.

ALTER: Yeah, that's right. I looked at that last year when I was working with John, which is probably a much better thing for you to look at than mine. Mine is a waste of time at this point, to tell you the truth, because I just covered that one. You've got much better documents.

KAPUR: And better economic data from the [*inaudible*]

ALTER: That would make much more sense.

Have you extracted enough from me for today?

LEWIS: I think for today . . .

ALTER: I'm around the Bank until January, so if you want to give me a ring . . .

LEWIS: That would be great.

ALTER: I'll be happy to talk to you at any time.

LEWIS: Richard [*Webb*] will be sorry he missed you, but maybe he can catch you sometime.

KAPUR: How do we reach you at the Bank?

ALTER: I'm about to move, so the office number I would give you today would not be the office number next week. I'm moving to be over near John Holsen, who is the head of this mission. I've been in the "E" building near Fred Levy these past two weeks. You have my home phone number, 3628606.

John is a good guy to talk to on all this stuff. He'll be very frank with you and forthcoming. And he's had good experience in the Bank, both in LAC and in Asia.

LEWIS: I first met him when he was the chief economist for, I guess, on India.

Well, this has really been great.

[End Tape 1, Side B]

[End of interview]