

105706

WORLD BANK HISTORY PROJECT

Brookings Institution



Transcript of interview with

BIMAL JALAN

**Date: November 15, 1991
New Delhi, India**

By: John Lewis, Richard Webb, Devesh Kapur

FOREWORD

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

Bimal Jalan
November 15, 1991 - Verbatim

*[Begin Tape 1, Side A]*¹

LEWIS: You worked there for quite awhile?

JALAN: Yes, in the early '60s, but I've been in touch.

LEWIS: And then you were an ED [*executive director*]?

JALAN: On the IMF [*International Monetary Fund*].

LEWIS: Oh, that's right. You were in the Fund. That's right.

JALAN: For the last ten years I have been associated with the Bank [*inaudible*] the banking sector on this side. So I've had quite a few [both speaking at once]

LEWIS: Well, what do you think, Bimal, that we should be thinking, if you have any general sort of impressions or comments on the relationship between the Bank and India. I think you know sort of the rough impressions people have that there was a big hoo-ha back in the '60s on--I think there's some feeling that the Bank has been sort of running scared ever since and that you people don't let them forget about that kind of mess. And there is a sense that, really, that the relationship with India has been somewhat "kid glove" compared with some other countries. I don't know; maybe that's changing.

JALAN: No, I think, yes. The '60s were a difficult period, and that did mark quite a lot of the form of the dialogue if not the content in the subsequent period. But I think you must remember that that era was very different. I mean, you know, the Bank did sympathize very much with the Indian strategy and so on. What it didn't like was its mentalities. Nobody questioned the planning apparatus or even the public sector.

And the exchange between George Woods and Morarji Desai was very interesting, by the way. You know, in 1964, somewhere around in there, there was an exchange between India's Finance Minister and George Woods in regard to the Bank's attitude to public sector and so on. It was quite interesting. The Bank generally was quite sympathetic with India's strategy. The problems arose--and I think that with the benefit of hindsight probably they were quite right--there was too much reliance on the administrative system which controls the [*inaudible*] and revenue. But these are the lessons that we have also learned from development economists. So of course as policy-makers [*inaudible*] that we . . .

So to answer your question, yes, '65, '66, some of that period was very difficult. India was passing through this drought with a lot of trouble. I think that there was also in India, after the second five-year plan, the second five-year plan in '68, third five-year plan, there were a lot of [*inaudible*] from the external funding and on drought.

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 [].

So today, I think since then I would say the relationship has been a “kid glove” relationship. The relationship has mainly been project based. I mean, that is a major difference. I mean, if you look at some other countries and so on, apart from the import laws that we took forward, I think five, ten years after that, five or seven years after that, there was a very small part of the Bank *[inaudible]* in terms of totals in a particular area. Most of the relationship with the Bank was project based and not involving macroeconomic dialogue. But on projects they did a lot of work. I mean, a lot of projects were changed in content and so on.

Second, the consortium did provide an opportunity--and a very important one at that--for which the macroeconomic dialogue was conducted. But we did not have too many programs, and that is the difference between the World Bank and India *[inaudible]*

Thirdly, of course, was that Indian economy was generally regarded as very well managed, if you go back in 1988 or 1989 or 1987 World Bank reports. That would also be interesting. In fact, one of the issues that I would like you to look into is just this: that how fashionable were also the views of experts and people like us who claim to be objective, technical, and the chap who is building a bridge isn't going to change his view, he knows how to do it. But here if you look at the '87-'88, the Bank's view of India's macroeconomic policy, and the '91 view of the Bank's view of India's macroeconomic policy, there's a world of difference. So, you know, what I'm saying is that there was a belief that India was handling its macroeconomic system reasonably well. There were of course differences of view on marginal issues but that the country was moving along the right lines.

LEWIS: But wasn't that—if you take that difference between '87-'88 and now--hasn't the main difference been really macro fiscal matters or financial matters, that is that in the '80s people were very impressed with the general performance of the Indian economy. It was growing as against the norm, and most developing countries weren't doing as well. India and China were sort of the front runners in terms of the data, but then--something that a person like myself would never have expected--you people sort of got more and more caught with a very big set of financial gaps, and it's this issue that is almost a standard structural adjustment kind of question that the Bank has been focusing on more currently.

JALAN: Yeah, but I mean the two were connected. You see, the kind of things that the Bank was praising--and there were certain consequences flowing from that, I mean, liberalization of industrial policy, liberalization of import policy, hydro supplement, and the Bank was not [drowned out by sounds of coffee service]

[Interruption for coffee service]

KAPUR: I guess--this came up in the conversation this morning *[inaudible]*--in the mid-'80s or slightly thereafter--I'm not sure when exactly--when India went in for a much greater *[inaudible]* short-term borrowing. What was the Bank's view then?

JALAN: There were two. You know, one is the--nobody can support short-term borrowing which was undertaken, but those short-term borrowings were a consequence of a set of policies within the administration. And, as you say, then we got into bigger and bigger financial gaps in period between '87 and '91, and money

was not forthcoming from the normal sources. There were also loans. Now so they said the hope was that somehow this process would reverse itself when the industry is established and, you know, these modernized sectors is established, and imports would start picking up. But that didn't happen. I mean, that happened to a certain extent but not to the extent that it was necessary to find the resources, and the whole appletart sort of was disturbed by two events which were beyond our control. I mean, one was, of course, the Gulf, which gave a shock, an external shock, and which came at a time when the internal economy was highly unstable. The internal system, political system, had become highly unstable from '88, from '89 onwards. We had four governments in two years--just totally unknown and unforeseen. So these things, I mean, prevented us from taking the kind of corrective actions and processes from '88-'89 onwards. I've dealt with some of these issues in a recent book that I've done, recently published.

WEBB: Do you have the book? Is it in Washington? [several speaking at once]

KAPUR: Yes.

JALAN: So what happens, you know, why. And I give a certain amount of importance to political economy factors here, you know, that after '88, mid-'88 to, say, June '91 we really haven't had an effective economic, a very effective government which could tackle problems on a sustained basis.

LEWIS: Right.

KAPUR: But in that sense, the twin issues--sort of which people argue or which led to the BOP [*balance of payments*] crisis--one was the increase of fiscal deficits and the other is—or the relative contribution of fiscal indebtedness--and the other is liberalization, sort of in the important first stage of the [*inaudible*] Of the two it would seem that the Bank, just reading through various reports, that they were more optimistic that the liberalization itself would not lead to a BOP crisis, at least in the mid-'80s, '86, '87. But was there as much emphasis on the increasing fiscal deficits and the borrowings which were India's doing, sort of . . .

JALAN: No, there was no inherent reason why liberalization should have led to this problem. You know, I mean that the--what I have argued in the--I'm sorry to refer to my book . . .

LEWIS: No, please!

JALAN: You see, the problem was that the inward-looking import liberalization that we had, that's where the problems lay. Now, the prospective--looking back, you know--if one had analyzed the problem at that time in these terms, that you are liberalizing, which is good, but you are liberalizing only for the domestic market based on foreign borrowings, you know. So it is--that is bound to create some problems, and these problems became exacerbated because of the events, post-'88 events in the political domestic sphere, in which we used our ability to contain, for example, demand for petroleum products or fertilizer. When petroleum was in use and you couldn't purchase amounts of petroleum because of the populism at that time and

[inaudible] adjust prices and so on--which we could have done when the first action was taken in '91.

And the point, to come back to your original World Bank/India relationship, I mean I think that we have really grown together in effect. There was a lot of enthusiasm for some of these things in India itself. You know, it's not merely because we are part of that. We learned as we went along, and at that point the thought was that first what you do is internal liberalization, and then you get on with external liberalization. These were all part of the literature also, and in terms of sequencing. But we found, that, look, under internal liberalization of this type this is only leading to an increase in imports for the domestic market and meeting demands of the 60 million people at the top. It's unsustainable on the basis of foreign borrowing. We should have reversed the process and get the export side moving up first, and we could do imports for the domestic market later. But these are things you learn. I mean, I'm not too discouraged by the fact that we've lost a couple of years of *[inaudible]*

WEBB: You know, I was really struck by the smallness of World Bank money as a proportion of anything here.

JALAN: That's true.

WEBB: And it's always been that, and now it's much less. It seems to be going down.

JALAN: In terms of nets, net amounts.

WEBB: Nets, net transfers.

JALAN: That's right.

WEBB: And even less if you look, if you deduct interest payments, and population's growing so, and GDP has been growing. So as a proportion of GDP, your population [both speaking at once] anything like that, but even if it wasn't going down, it's still very small.

JALAN: That's true.

WEBB: How do you see that? How do you think that might affect the relationship? One doesn't hear much about that fact, and when there are references to one country or another in the World Bank, the references are made as if this is basically the same thing.

JALAN: It is a very important point you've raised. I think this has been something that has got to be highlighted when dealing with the Indian context, something that should be in your report on concessional task force also, that India has not been a major aid recipient in terms of the size of its economy or in per capita or any of the criteria that you can take, and that's true of the World Bank which is a subset of that *[inaudible]* But that is a fact, and it was--relating the sort of relationship we have had which, to use your words, inadequacy or as argumentative as in some other countries. Whether this is a function of this, probably it is.

LEWIS: Yes, they don't buy very much space at the table, do they?

JALAN: Yes, yes, that is true.

WEBB: That really comes out.

JALAN: That's a very important point in that the size, I think, has something to do with it, and therefore that if the size was very much larger, then obviously [both speaking at once]

LEWIS: Also, I think if your share of IDA [*International Development Association*] had stayed 40 percent instead of gone down to 15, these macro problems would have been [both speaking at once]

JALAN: That also is an important point.

WEBB: Because now there's a sudden change, it seems, in the situation because of the balance of payments situation. There's suddenly strong interest in [*inaudible*] Bank money, and one gets the sense that it's one of those "for want of a nail" situations or that suddenly—there's a multiplier here, disproportionate attempts at repayments, but there is that sense right now, isn't there?

JALAN: Well, the Fund part is concerned. I mean, the Bank's part was still relatively modest in relation to the total size of the operations, but the injection of the Fund money, that's quite large because, you know, it's not a continuous loan. It's one borrowing. And I think part of the reason why you get this sense of dependence is that other sources on which we were depended have dried up, the commercial banks.

KAPUR: You need some sort of a "Good Housekeeping Seal" from the Bank and the Fund.

JALAN: Not only seal but also liquidity. We need liquidity; I mean, otherwise, the costs are going to be much higher, of adjustment or anything you do. The liquidity problem has become very predominant just now. And we used to borrow up to, say, two billion dollars or so from the commercial banking sector per year. So it's very small; it's not very large. And once that dries up, the alternate source was IMF, but in total availability in net terms from external sources I don't think it has increased very much.

WEBBS: Do you think those thousands and thousands and thousands of man-hours of consultants and Bank officers wandering around, talking to technicians here, have added up to quite an important transfer of expertise, quality of management from the project level and so on? [both speaking at once] How would you rank that in terms of the . . .

JALAN: There was a time, I think, around '87 or '88 when the idea--IDA wasn't [*inaudible*] down, when the Bank's interest rates were becoming very much more market-related, as they are now, I mean, this question was raised--we were not borrowing from the commercial markets, whether we should reduce the volume of

lending, volume of borrowing from the Bank and go to the commercial markets for the project financing and so on. After careful consideration we came to the conclusion that, no, that this kind of relationship with the Bank was much more beneficial to us in terms of technical help on projects and some sort of, a certain amount of non-equipment-related vetting of projects--you know, what happens if we are dealing with either commercial side or bilaterals, in that trade interests become quite predominant--while with the World Bank there were these global tendering, professionalism, very high degree of technical--in fact, I regard that as the most important input from the World Bank side, that in designing projects always you come here. It has been a very productive relationship from our point.

LEWIS: Can you categorize that at all by sectors or projects, discrete projects versus larger projects versus policy advice?

JALAN: You see, there is a lot of invisible input from the Bank which is not absolutely clear to people because it's not sort of written down in terms of understandings. I'll give you some examples that may interest you.

LEWIS: Yes, please.

JALAN: I mean, the kind of work that the Bank has done in India on industrial protectionism or, say, *[inaudible]* layers of protection, the kind of work that it has done on import policy, trade policy reform, the work that it did on sectoral, sub-sectoral level on automobiles, these have had an influence on our thinking which is—I mean, which is not generally appreciated because it's not in the normal conditionality. And the reason why it had an impact, I would say, was purely because it brought a lot of technical information and materials by very high-class, very high-quality professionals working in industry who had no axe to grind themselves. You know, which--I mean, when you see these when they did their—I'll give you an example: electronics. When they looked into the tariff structures and they looked into the sort of totally awkward, haphazard impact on incentives and so on, I mean it opened our eyes.

Similarly, the fact that this great thrust towards indigenous production, et cetera, was not really saving *[inaudible]* I mean, that it was saving foreign exchange that's obvious, but if you take indirect input, direct input, it was, you know, probably consuming more because we were getting into total value added areas. And so there would be the structure of automobile industry, how the world, how to organize a worldwide *[inaudible]* Their report on tariffs and trade reform and industrial policy.

I mean, these things have had substantial, I think, influence. We will not say so, but I think that most of the influence is not known today. The most important influence and understanding was entirely because of good professional work, communications at the professional level, and the persons who reading this stuff and were using it as part of our “intellectual kit,” as it were.

LEWIS: These people came both from the sort of regional sector of the Bank and from the central economics department or . . .

JALAN: I think central economics department probably less than [both speaking at once] It was much more region-based. I mean, I don't know where the people were drawn, but I don't think the economic set-up was that prominent here. Maybe some people in the Delhi office. And, for example, the work that was done on fertilizers, that itself was very interesting for us. The work that *[inaudible]* Many of these subsectors and their *[inaudible]* quite a lot.

WEBB: How does the adjustment lending, then, format, affect that kind of transfer that you see occurring at the project level and through economic studies or technical studies? Do you think they have ended up reinforcing that?

JALAN: You see, the problem, as I see it--and as long as I have been working on this concessional task force where we've discussed all these issues--the problem with a structural adjustment lending type of an operation is that it cannot differentiate too widely among countries. You see, all of us recognize that countries are different, situations are different, problems are different. But when you're dealing with institutions, dealing with a large number of countries, I mean there is a tendency, an inevitable management necessity, to put everything within some standard format. And that is where the problems, I think, arise. But when you--all of us recognize that this has to be adjusted depending on what country, where you are, and the Bank is probably the first to say this. But your thinking, the conceptual framework, is the same, whether you are dealing with Botswana, India, Zambia, Brazil. You know, I mean, any team will come here, whether dealing with financial reform or dealing with industrial reform or dealing with trade reform or--I mean, the list is the same--public sector. Maybe the issues are the same, but the priorities and sequencing, to my mind, must differ from country to country.

And you are constrained, I mean, at that level because if you go to the Board *[of Executive Directors]*, and it doesn't have a package on financial reform, somebody would say, "Where is the financial reform? What about interest rates?" I mean, so there is a--"What about tariff reform?" All these things will be important, but within a three-year period, I mean when you're talking about first things first and you're talking about some sequencing and you are talking about totally different structures of economies, that you've got to adjust.

But there is no--I've been thinking about this issue myself. And how do you meet the management requirements of standardization with the accepted perception that every country is different? I mean—and I have not been able to find out, and I recognize that, you know, your management group wants to see something. But if, say, *[Lewis T.]* Preston or *[Alden W.]* Clausen or somebody is looking at something--he is not an expert on India--he wants to make sure that, "Look, I mean I have got a program which is good, which is tough." That is why you get arguments like *[inaudible]* the same argument, you know, that if you differentiated among countries because they are either borrowing less or their problems are different, and you will say, "Look, what about this, or what about that? Or India is not doing enough, or Brazil is not doing enough."

LEWIS: Let me ask you: you listed a whole set of useful things the Bank has--papers and whatnot they've come up with, policy think-pieces that you found really useful, and you compared with that the structural adjustment sort of straitjacket you say is not

so well suited to some countries, such as India. In the first case, who puts together this tailor-made, integrated policy recipe? Is there someone in the Bank's regional or country desk group who come up with some counsel on that kind or do you just do it yourself with these pieces that they've . .

JALAN: I mean, the process, it's not--I mean I think there is no sequence which you can recognize. I mean, there is, when the dialogue starts, there are some ideas from that side, coming from here also, what is the required [*inaudible*] and they're also familiar with the problems on our end. What I'm saying is that--and ultimately maybe you will arrive at a very good package for the country in question; maybe this is something everybody agrees--but I was responding more generally to the problem of running a structural adjustment kind of a package: large number of situations which are so different, but where there is a great management need for some standardization. Even quantities may differ, but the areas to be covered, the formats, and the agenda have to be more or less . . .

LEWIS: I heard you also making a distinction that I've been trying to make procedurally, that there are two ways to go. One is a sort of preconditioning pattern, and you say a la the Fund, and I think it's SAL [*structural adjustment loan*]. And the other is this ongoing dialogue between the parties where you have a give and take and mutual education without at least overt conditioning or preconditioning, but nevertheless some influences in the partnership.

JALAN: Yes, I mean I think the second is to be preferred, but I recognize the other problems, that at what point a program with a second approach will lead to a weak program.

LEWIS: Yeah, that's right.

JALAN: I recognize this, that you need to satisfy whoever is running the Bank and the Board that the program is not a give-away. It is not a soft loan. And so how do you reconcile these two different requirements? I've not been able to figure out in my own mind.

But two points that I am quite sure about and in coming years have to sort out is the relationship between stabilization and structural adjustment. To my mind, structural adjustment is best undertaken after you have stabilized the economy, and/or--that's the second, sort of at a later phase--and once these two things get mixed up, you get into a certain amount of problems on both sides, on the stabilization as well as structural adjustment. Now, of course, then again we get into this big controversy that without the one, stabilization, you can't have structural adjustment. Now I'm distinguishing between the financial side, the financial in terms of budget and fiscal deficits and all that sort of thing--that side--from much more the structural side of industry, trade reform. And I'm seeing that these two areas, if you could find some methodology that would be [*inaudible*] in a fashion that they become reinforcing, rather than mutually conflicting.

KAPUR: Is the situation which you have mentioned, the context of standardization of the package in the world's countries, do you see any differences or really not much between the Fund and the Bank, especially in India, as they are starting to overlap?

JALAN: In the recent years I know the Fund much more than I know the Bank's, the structural adjustment program, and so I can't comment on the way, how the two institutions are handling the problem. The Fund has more reasons to standardize, by the way. It's dealing top down. You know, there is a fiscal problem that has got to be corrected. You know, India has some very different problems [*inaudible*] corrected. So I have somewhat greater sympathies with these--that you have to tackle these problems and fiscal deficits [*inaudible*] you correct. But for the structural side of reform, because the structural side can conflict with the fiscal and the vice versa, I mean I can—one can undertake the structural reform if your fiscal system is sound. India's is in bad shape. Then you are shocking the public sector, and at the same time you start shocking the private sector and unorganized sectors, and you can get into deep trouble, you know.

LEWIS: Yeah.

JALAN: If it weren't for reasons of money--I mean, we don't have the money to finance the public sector. Therefore you are [drowned out] and the second on grounds of reform because they want to shift some resources from import intensive to export intensive. They're very desirable, but the two can't reinforce each other and the public impact will be negative.

LEWIS: You just mentioned something. Let me ask you about privatization. This has gotten to be certainly to some degree more of a slogan in the Bank in the past several years, and it's not one that a priori would have been thought of as terribly agreeable to the government of India. How has that actually worked out? Has it been much of an issue, or is it . . .

JALAN: No, this is an issue which is very liked. The way I look at this problem not necessarily from a point of the policy ultimately set is--I mean, there is no doubt that in the sort of enthusiastic phase of the public sector, I mean we got into a lot of industries, the sort of things that we should not have got into. On any objective grounds, any political grounds, there's simply no reason why the government should be taking over private sector [*inaudible*] It's not running them, losses, running hotels, consultancies. You know, it's an amazing kind of defeat, but the belief was that you got problems have a public sector corporation; you know, that was the whole thing. I mean, if marketing is a problem, you have a marketing corporation. If production is a problem, you have a production corporation. If your imports are problem, you have import corporation. So this is how we have expanded, but that is where we are. So there is no doubt—I mean, I think in most people's minds--that some of these things have got to be shrunk back to more manageable in fact. So that is one part.

The second part is that there are wrong choices of a technological nature--location-wise, product-wise--that we have made. These resources are lying like value added negative, and something has to be done. Now, [*inaudible*] Outside of this there is a very large public sector which is not giving you financial returns of the type that you want to have, but is not a drain. It is not—I mean, it's probably giving you 7, 8 percent; it should give you 12 or 13 percent. But a very large amount of money is involved there. The way I look at it, that we have to take care of the worst problems first rather than getting into an ideological controversy over privatization and non-

privatization—you know, that we approach the problem purely pragmatically. It's both from the supply side as well as from the political side. That is the only way because from the supply side you don't have that amount of money floating around to be able to disinvest at one go or even [*inaudible*] an entire edifice. So you would have to proceed step by step anyway.

LEWIS: Right.

JALAN: And from the political point of view or public acceptability point of view, if we can solve the worst of our problems on which there is not much of a decision, I don't think any socialist wants to run with debts. It must be there were some socialists who want to run with debts, but I think you will find it hard to find a socialist who wants to run a hotel at a loss in a prime area of Delhi. I mean, if he can find an argument that's your fault and not mine but not the [*inaudible*], but I don't think he can justify that this is the way to do.

LEWIS: How do you perceive the Bank on this issue of privatization? Have they been involved in any way? Are they getting more strident? Less so?

JALAN: They've been very, I mean, from my understanding is that they've been—I mean, they are very judicious. From what my understanding of the situation is, they've been extremely judicious. No, the Bank has been handling India very well, and I really admire the tact and the breadth of issues which they have been dealing with us, and that is probably a reflection also that probably some of the best minds work there.

LEWIS: And you also have had a very special back-and-forth relationship with them.

JALAN: Yes, we have a special back and forth, and the fact that you have good minds. It's a large segment, so it's not only three fellows working, but in any division you have a hundred fellows working. There's a lot of cross-fertilization of ideas among the old India hands. They've worked here for a long time. So I think it's just a worked-out practice.

KAPUR: You have focused primarily on the Bank's relationship with India on sort of economic policies. Could you sort of look at what some perceive as a major weakness of India's development now, major weakness in institutions: corrosion in legal systems, bureaucracy, corruption—those are large and that these things have grown steadily over time and that they are perhaps enormous problems. These are the perceptions. How do you see the Bank's role in that? Some people might argue that these are the very pillars of development and change. It's not overlooked but perhaps underemphasized.

JALAN: Look, I don't really regard them as pillars of development. I agree with the sort of mainstream remark that there is too much bureaucracy, too much administration, too much corruption in the public [*inaudible*] political system, economy [*inaudible*] political scientists. And the question is how do we proceed, you know. To my mind the question of personnel is much less important, at least here than

in other countries. Here we have the problem of policy, you know, that I don't have to be preoccupied with, say, *[inaudible]* [both speaking at once]

LEWIS: I remember. Richard doesn't. He's lucky! *[Laughter]*

JALAN: You see, maybe we'll have 300 people working *[inaudible]* They're not important. That's not the issue that I would tackle, you know, close *[inaudible]* You retain the policy, but this is not--that your industrializing or import policy doesn't have to go there. They will retire over a period of time. They will do something else. The money involved there is not important, you know, that you have to find a solution which does not—the problem of people does not color our problem of policy because the number of people are not many, you know, in terms of the total totality.

LEWIS: I think that what Devesh, though, was talking about was not just sort of dead-weight people but a kind of corrosion of the whole system, a . . .

JALAN: You see it's related more to policy, to policy incentives. Now we have abolished industrial licenses. We are now gradually abolishing import licensing. Now, this eliminates corruption altogether.

LEWIS: So you're going to eliminate a lot of rent-seeking opportunities.

JALAN: Absolutely, absolutely. Now the fellows--I'm not telling you--I'm not saying that you'll cut out this *[inaudible]*, give them, pay salary, whatever, they can go for a round, talk to each other—something, you know. But you can't, you know, that given our systems, we don't—that if you say that, “Close down. Fire people from *[inaudible]*” I mean this smaller problem will become the more dominant one.

WEBB: How does the World Bank relate now to the Planning Commission? The Bank has come and gone on plans, planning commissions.

JALAN: I don't think there's very much of an interaction with the Planning Commission.

KAPUR: There never was or . . .

LEWIS: Never has been here, I think, particularly.

JALAN: Except in the area of planning, you know, I mean, you probably recall from your time.

LEWIS: Yeah, they certainly dealt with Pitamber *[Pant]*--we had to sit right in this room--but not really a formal connection, at least not a counterpart.

JALAN: That's right. With the Ford Foundation team they were much more involved in the industrial planning, but not the Bank.

LEWIS: Albert Water--what's his name? Waterstein?

JALAN: Waterston.

LEWIS: Waterston. He was documenting planning regimes all over the world.

JALAN: Yes, I remember! There used to be a scorecard. How many countries have you got the plans for? He *[inaudible]* great victory: the greater the number of countries which have plans the better it was. *[Laughter]*

LEWIS: That's right.

WEBB: Looking back over the long, the whole relationship, do you see areas where the Bank has definitely nudged India in one direction or another, perhaps in the investment mix or certain, the design of certain kinds of projects?

JALAN: I cannot offhand identify *[inaudible]* in relation to what I have said before, that the fruits of the professional/technical have been important.

WEBB: Nothing very evident.

JALAN: No, I can't think of anything.

WEBB: You wouldn't say that the Bank has succeeded in nudging India to invest more in agriculture?

JALAN: Look, I would say that the way it has worked goes back to your first point. The size is very small. I mean, nudging is not that obvious in terms of the total quantum, but when the Bank has, for example, gotten interested in population--that was true when McNamara was there and got interested in *[inaudible]* population, then, I mean, obviously the population programs, et cetera, were funded by the Bank. They became, you know, more prominent when we were able to undertake a scheme when Bank financing or IDA financing were available. Housing, [drowned out] for example.

WEBB: These were thing where there was a little movement.

JALAN: A little, but relative to the size of the operation.

LEWIS: I think maybe you're saying currently that in a case like population or I think in the agriculture in the '70s, the Bank increased its allocation to agriculture quite a lot relatively and so it was sort of a signal of the importance [both speaking at once]

JALAN: Yes, yes, and so it helped, in that sense.

WEBB: But it's a small part of all agriculture . .

JALAN: The total, yes.

KAPUR: You know, the first history, *[Edward S.] Mason [Robert E.] Asher* one, has a piece on India and the Bank, starts off with saying that India is the one country where one can't say that it was the Bank which influenced the country more; the

country had influenced the Bank more. Do you see the 25 years since, is there a sense a sort of to turn the question on its head: has India influenced the Bank since then?

JALAN: I think it's a rather interesting question. I mean, it's a journalistic type of a question which probably journalists can answer. But I think that if you are looking at the whole development history, development economics, India's experiment, the World Bank--they all coincide in time. I mean, how many countries do you have of India's size in a kind of--running the kind of politics with which, say, the World Bank would have sympathies and democratic, and most economists, most of the world's economists have [*inaudible*] And the whole growth of development economics—these are all too intertwined, so who influenced whom is extremely difficult to answer. But I feel--and I don't regard that the World Bank economists or the World Bank professionals are thinking in a vacuum. They are reacting, and India has provided the bulk for many of the experiments in, I think, democratic development policies. So it must help, have something to do with poverty programs.

The debate on poverty started from India in 1978 [*inaudible*] called the poverty line in poverty and there was a tremendous amount of work in the Bank on poverty issues. I mean, you don't say, was the Indian crucial--not Indian government--Indian academics, the poverty issue became very important.

The issues regarding planning in the '50s--when you were here in the '50s--I mean, India was the first experiment on sort of planning within a democratic framework, participatory framework, the whole cooperative movement, and a lot of discussion in the Bank went on.

I think that you can say that the Bank presence here--India's failures, on the other hand, in the '70s must have also influenced Bank's thinking.

LEWIS: Yeah.

JALAN: As, indeed, of the development economists. So I'm saying that it's--I mean the cross-fertilization of ideas is at the professional level, and that's where it is impossible to draw on whether [*V. M.*] Dandekar is writing for the Bank, or Raj [*Krishna*] is writing for the Bank or the Ford Foundation. You know, Dandekar's work was done for the, I think, Ford Foundation.

LEWIS: Ford Foundation, right. [several speaking at once]

JALAN: 1970, '71. Yeah, I mean, this was the first sort of careful work on this whole set of issues.

LEWIS: Although there was the [*P. C.*] Mahalanobis; that was a paper back in the 1960s, '61, '62.

JALAN: Yes, Pitamber Pant also wrote, but the focus became--it suddenly burst forth.

LEWIS: Just at that time there was such an explosion of attention.

JALAN: Yes, because the 15 or 20 years of experience—we all of us had 15 years of experience with planning and everything and you suddenly found that, look, what we'll do [*inaudible*] the poor. I think this outflow of ideas has been put at the professional level, correctly. This is what I see when I read World Bank reports. It does transmit some information to the [*inaudible*] Indian literature or Indian books, and there was a very lively debate in it on agricultural issues, you know, I mean, the price response of farmers. I mean, what you regard as sort of proven. And in the '50s there is no single line in any of the plans for prices or price response because the price response was not important.

LEWIS: I've been documenting that just for myself lately.

Let's take agriculture for a minute, Bimal. This is perhaps not as much your field as some others, but do you think it's true that--the Bank certainly increased its loans to agriculture in the 1970s, but you might argue that the Bank has not been particularly effective or adept at institution-building in agriculture, that some other donors have--whether it's because they've been more on the ground or because they've had more sort of micro-technocratic rural types working in their programs--have been more effective in helping a country like India build the institutions, educational institutions, marketing institutions and so on. Is there anything in that, do you think, or . . .

JALAN: Yes, probably yes, but you know the Bank's help for agriculture, I think, quite properly is studies and so on, studies on the fertilizer sector, power sector, irrigation systems. Actually they've done quite a bit of work in these.

LEWIS: Oh, irrigation a lot . . .

[End Tape 1, Side A]

[Begin Tape 1, Side B]

LEWIS: Do you perceive that what they've done has been more or less sensible?

JALAN: I should think so. There is a tremendous amount of appreciation for Bank's work at the project level, and I've [*inaudible*] in the Finance Ministry for some time, and I have not heard anybody complaining about that side. That the Bank's work is transparent, there is no--and in fact [*inaudible*] global tendering and so on, the professionals were not aligned with one country or the other, has given them a professional appearance that I think has great value.

WEBB: In the Bank now we hear a lot of complaining about implementation of projects here in India. There is this huge pipeline. Some of that has special financial problems, devaluation particularly. So there seems to be, at least in the minds of people in the Bank, a sense that this is—if you want to choose one or two or three key problems in their relationship with India, they put that as number one or two. How do you view that? That's simply the way the Bank will see every country, probably, or . . .

JALAN: Well, there is--to be quite frank, there is a deterioration of implementation, yes. There's no doubt about it, and partly bureaucratic failures, partly the funding structures, at the state level particularly, and the required amounts that is really counterpart funds . . .

WEBB: Is that quite recent? How long has that been going on?

JALAN: I think there, you know, the last five years. The reason for that is that most state governments are really bankrupt in terms of development budgets. I mean, the development budgets are—I mean, they simply don't have money. They pay salaries, and that's it, you know. I mean, so you have to provide counterpart funds so that if you need money—I mean, they just don't have money, so they delay.

WEBB: Just on that point: if the Bank is funding one or two projects, there isn't a flexibility for transferring funds to a Bank project where you're getting outside money as against others who were not getting any. It's not the desired effect at all.

JALAN: Well, we have done a lot of institutional—I mean, that kind of a thing where you give preference through several funded funds and divert money there. But what happens on the ground is, given the political nature of all the projects, and you can't be seen to be shutting anything, because you've got roads being built in your constituency and his constituency and his constituency, and one is financed by the Bank and two are financed by them, they will give you a little money, a little money, and then maybe a little more. But in funding what we are trying to do in the Finance Ministry is to make special allocations, that anybody who could get it from the Bank or a certain funder could get an additionality fund. But these are problems. When the money goes there they want to divert it to an additional salary or something else which has local importance. So those problems are there. The implementation problems in terms of procedures, bottlenecks at the administrative level, they are also there. I mean, it cannot be denied.

LEWIS: And the federal system complicates this, I suppose, isn't it?

JALAN: Yes, federal system and the fact that the total development budgets are shrinking because I mean, it's much easier to postpone a project such as, say, a road which is not built than to stop paying the payment of salaries for, you know, somebody who is alive. So . . .

KAPUR: In the case of, say, the hundred million dollar *[inaudible]* or urban projects that the center would be, say, twenty or thirty percent of that and *[inaudible]* costs?

JALAN: No, I mean, it's slightly more complicated because the plan, when centralized assistance is given to the states, in the initial state *[inaudible]* non-project-related centralism. That takes into account all receipts of funds from abroad, all of them. The receipts are already taken. So they are distributed. Then project-related money is also transferred. So there is that duplication. But now this share has been raised anyway, because of this particular problem that you're talking about. I mean, the share, I think, has been raised in most projects from 90 percent to 95 percent. But the central government is taking the exchange risk on all of the externally-funded. But it's a very major . . .

KAPUR: How has, you know, this problem of federal system—the power sector, for example, where this has seemed to have come to the court. The Bank has sort of almost said it won't lend to the power sector on terms of *[inaudible]* and indeed we

see which they recognize as a good, which [inaudible] has been sort of held captive, fear because the states are making these [inaudible] tariffs. How does this affect the relationship with the Bank when, because of pressures . . .

JALAN: Well, I think that both the federal government and the Bank see eye to eye on this point, you know, that what is going on in the power sector is simply not sustainable. I think it is also view of central government; it is also the view of the Bank and is also perhaps the view of the State Department. So this particular logjam is somehow to be unlocked at some point.

LEWIS: And it's political pressure at the state level?

JALAN: Yes. You know that every state wants to be with electricity which is free, power. [inaudible] They don't want to raise tariffs [inaudible] They don't want to rationalize the work force in the state electricity boards, and there is a shortage of power. They cannot implement new projects at the same pace as they should because they don't have the electrical power. It's the same old story. It's a mess. You have to recognize it as such, and while we sort of are going to peremptory stoppage of funds and cause some strains, I think that one has to accept the fact that this can't go on and on and on like this. They should have some profits at some point.

LEWIS: The Rural Electrification Corporation has become irrelevant?

JALAN: I don't know enough about it, but from what I understand it's not doing very much.

LEWIS: You know how it got started. It was a different situation; namely, that the state electricity boards were taking the injunctions of the Bank and other donors sufficiently seriously about charging a cost-covering price for electricity so that, given the pressures to give cheap electricity to farmers, they simply weren't giving it to farmers. And so the REC was invented to fund electricity for farmers but at economic prices--which was fudged somewhat even in the beginning. It wasn't fully successful; it was mostly a bank-financed invention in some of those cases. And for a while it seemed to work rather well. At least they did get quite a lot of electricity out, but from what you say--and we've heard the same thing from the Bank people just last week, that the situation has changed, and the state electricity boards aren't following their instructions.

JALAN: You know, this is something which is inevitable. We've just got too many things, taken on too many things, and we don't know how to handle it. The realignment of active state activities and all those things that, you know, we haven't even thought about. And it is inevitable, unavoidable, and I think totally desirable.

I mean, of course the other thing is that you say that the state gets out of everything. Then you would have another--after thirty years or twenty years, whatever--reaction that, you know, why wasn't [inaudible] But some rethinking is going on, on the electricity and the state as the sole purveyor of electricity.

KAPUR: [inaudible]

JALAN: [*inaudible*] long run solutions.

LEWIS: Well, I think that we've probably just about exhausted the time you have available. Thank you very much.

JALAN: It's been nice to see you.

LEWIS: It's great to see you.

JALAN: I wish I had some advance information that you were coming; I would have taken you to lunch or something.

LEWIS: Oh, you're very nice. I'm sure that I at least will be back one time or another.

JALAN: After how long are you coming here?

LEWIS: The last time was in June of 1990. I had a Ford Foundation small grant that allowed me to come over the space of several years maybe once or twice a year. I've been trying to put together some material on India that I've been partly fooling around with for years and some of it's fresh. And I've got a manuscript, a rough one, that's out now being looked at. If that tweaks the interest of the publisher, then I'll probably be back then to get it tidied up.

JALAN: This will be the one you write after your *Quiet Crisis in India*?

LEWIS: Yeah, that's right. A thirty-year gap.

Actually, the core of this one is a review, a recollection of what did transpire between the donors and the government of India back in the '60s, in this great period of sort of pre-structural adjustment. I'm going to have some stuff before that and some other stuff afterwards and a couple of chapters at the end that speculate about the present and the future.

JALAN: I was taking a look at your book very recently, now in 1990, [*inaudible*] how India's economic crisis [*inaudible*] 1961, I think.

LEWIS: 1962 maybe.

JALAN: '62. You were talking about a quiet crisis. You know this book by [*C. T.*] Kurien in '67 talked about India's economic crisis. There is a little article by [*A. H.*] Hanson in '63 on the crisis in Indian management. I said, "My God, we were talking about India's crisis for 30 years!" [*Laughter*]

LEWIS: Right. I think [*Michael*] Lipton and somebody had another book, *The Crisis of Indian Planning*, I think--[*Paul*] Streeton, I guess, it was. I'm not sure.

JALAN: Oh, it's interesting. Thirty years we've been talking about that.

KAPUR: John can call it now "unquiet."

LEWIS: Unquiet, yes.

You know, the very year that mine came out, I was a junior member of the Kennedy administration. Stuart Udall, who was appointed to be secretary of the interior, came out with a book the same year called *The Quiet Crisis*. [all speaking at once]

JALAN: A very well-chosen title!

[End Tape 1, Side B]

[End of interview]