

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

SHANKAR N. ACHARYA

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By: Richard Webb, Davesh Kapur

*Shankar Acharya
February 6, 1992 - Verbatim*

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.

Shankar Acharya
February 6, 1992 - Verbatim

*[Begin Tape 1, Side A]*¹

[There are probably a number of inaccuracies in this transcript; the interviewee talks very fast. jgb]

ACHARYA: Maybe you want to just give me a little bit of background as to, you know, which part you're--I mean, I know this history is going on, and I've had a couple of long sessions with Nick [*Nicholas H.*] Stern some time ago, a few months ago in the summer.

WEBB: Oh, good.

ACHARYA: He's doing some dimension of it, too, I think. So that's just kind of for me to know which dimension you guys are doing, you know, and if I can help you with something.

WEBB: Well, formally the project is to repeat the [*Edward S.*] Mason and [*Robert E.*] Asher [*The World Bank since Bretton Woods*]. It's fifty years, now; 1994 will be fifty years. And as with Mason-Asher, the Bank took the initiative but decided to make this an independent study. They asked Brookings to do it; the Bank is [*inaudible*] But the Bank and Brookings together agreed on the authors. They asked John [*Lewis*] to do it, and then together they asked me to join John. John and I are the authors, and Devesh is doing all the work. Devesh is finishing his Ph.D. at Princeton with John. We started but on a half-time basis about a year and a half ago. John and I have been working. He was at Princeton and he was still teaching, and I was still at Lima. But a few months ago I came here. I'm now here full time, and John retired, and now he's full time, also. So we're now geared up.

The idea is to have two books this time. One will be similar to Mason and Asher, but the other will be a collection of articles written by people looking at the Bank from outside, external viewpoints. One of those is Stern's.

ACHARYA: I see. Right.

WEBB: There are a dozen papers like that. One will be written by someone from the Fund [*International Monetary Fund*] about the Fund and the Bank; Jacques Polak did one. There are two being written from the donor countries perspective, the U.S. and Japan. Catherine Gwin is doing the U.S. one; she's at Rockefeller Foundation. [*Toyoo*] Gyohten is the Japan government, Finance . .

ACHARYA: Yes, he used to be head of the Treasury in Japan [*inaudible*] some years ago.

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 [].

KAPUR: Equivalent of [*David C.*] Mulford.

WEBB: He's doing the Japanese one, and a pretty good perspective on it. A couple of case studies: we're doing a small country, Ivory Coast, with a long relationship with the Bank; Brazil as a case of a debt country; and Korea. We tried to get Indonesia but failed because we couldn't find an author, one who would be both knowledgeable enough and independent enough. That didn't seem to exist, that category.

ACHARYA: Right, yeah. You had the Bernie [*Bernard R.*] Bells, but Bernie Bell has passed away now.

KAPUR: No, he lives.

WEBB: Yeah.

ACHARYA: But he wouldn't be independent. He's completely wrapped up in it.

WEBB: He's been going there for a long time.

ACHARYA: Yeah.

WEBB: Bank people tend to be long-lived. We've met quite a few people who go way back [both speaking at once]

ACHARYA: That's the [both speaking at once]

KAPUR: Then we have two on the Bank's projects, one on South Asia that's by Mr. [*S.*] Guhan of M-I-D-S [*Madras Institute for Development Studies*], and East Africa by Alex Duncan, who is at Oxford.

WEBB: And then there's Nick. And there's a kind of a fun piece which is just slightly—it's not—we broke the rules that we'd have a non-Bank person, because we wanted one on political issues, how the Bank has dealt with political issues, and in the end we ran out of alternatives and turned to Mahbub [*ul-Haq*]. So that's the--that volume.

And what John and I are doing, we've structured the eight chapters on prosaic topics like how--the organization and management of the Bank, the funding of the Bank, projects, policy lending, then the particular stories of poverty and agriculture and rural development. We might have to include one on, a small chapter on environment, perhaps. These are the kind of chapters that were--the way we're organizing it. We're hoping to do

a more or less chronological story within each. And here we are. We're floundering about, really, because there's just so much . . .

ACHARYA: Well, you have—you're too close to sort of too many people, probably, and, you know, on the other hand you have hundreds of perspectives on a--it's like two people and the elephant.

KAPUR: Yeah, for every story, you get a counter story.

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

WEBB: And these stories, people have been very generous in talking. We have total access to staff. But going down from these broad stories into kind of documenting it, checking things out and checking on the other side, that we haven't gone, done very much, really.

ACHARYA: Well, I mean I'm not sure how I can help you, but you ask questions, and I'll tell you whether I can answer.

WEBB: The most immediate reason that--and why we called you--is that I'm now working on the poverty chapter, and it seemed that one of the big areas that really ought to be examined if one asks, "What has the Bank done about poverty? How is it thinking and acting?" is how the Bank has kind of looked at and worked on the area of public financing. When one hears people talk about poverty in the Bank or reads, almost invariably the discussion turns on projects. And then sometimes it gets to tactics, public sector, and more recently into the social compensation programs, the *[inaudible]* adjustment programs, but there's relatively little of a systematic view of public finance.

We were talking to Lyn Squire. He brings this up more to the surface, this sort of point, in other words, if the Bank wants to do something about poverty, it ought to be looking at the whole of what a government does, of course particularly the public financing. It's always the way I've seen this when I worked on poverty policy. It didn't make much sense to concentrate on one or two instruments because so much of what a government does has indirect, indirectly on poverty.

Some of these things come up in the early discussions on the employment aspects of a number of policies of the Bank, and that was one way of getting at this. And now there is this Bank concentration on the social sector that really is the key instrument. It's really bringing the Bank back more into a broader view, but the impression is that it's still rather, it's never been very integral, and that's really what the question is.

KAPUR: Let me just add on to this point. It's fascinating when one sees a huge number of documents that go to the Board *[of Executive Directors]*, documents that in '70, well, sort of between '72 and when McNamara went out, and the attention on poverty is always

in terms of numbers, of how much of our lending portfolio is on poverty projects. And one has until very recently almost never seen or the fact has hardly been put at least in writing, that, “Look, so whatever we spend on India is absolutely a drop in the bucket on poverty, and really what largely really matters is how much government of India’s actions and its own public expenditure side.” So both the issue of fungibility as well as that, “Look, we have been as successful in poverty because of how we have influenced the purse or whatever, the borrower on the public expenditure matters, which is going to in the long run have a much more profound and real effect than any of our projects per se.” That has been strikingly absent, I must say, in—at least from all the Board documents. It could be very true that internally people are very much aware, and that is the sort of thing which . . .

ACHARYA: Yeah. I mean, well, I’m not sure I can give you a very coherent answer. Let me sort of do the stream of consciousness stuff. As you would know, Richard, that really the—my recollection, anyway--of how poverty became quite an important part of the Bank's intellectual and rhetorical agenda [*inaudible*] seeped into operational goes back to the early ‘70s. I think this was partly the key speech that was done by [*Robert S.*] McNamara, the so-called Nairobi speech of 1973.

WEBB: ‘73, was it?

ACHARYA: ‘73, as I recall. Were you at the Bank at that time?

WEBB: No, not yet.

ACHARYA: I’d joined at the end of October ‘71.

WEBB: You were here?

ACHARYA: I was here because I remember that I was . . .

WEBB: How did it impact you? What is your recollection of it?

ACHARYA: Well, two or three different things were going on. In fact, even prior to that basically, as I recall it—and this is, of course, memory; I have no documentation--but what led to that speech, I think, was staff work, not of a high-fallutin’ research kind but people like Mahbub and Arun Shourie, who was there then, they were formerly journalists in India [all speaking at once]

KAPUR: The paper I sent [*inaudible*]

ACHARYA: They were doing kind of staff notes for Hollis [*Chenery*] and Ernie [*Ernest Stern*] and so on and McNamara. And in those days Mahbub used to, as I recall, play an important role in the McNamara speech writing; others got involved as well. But certainly the 1973 speech--I don't know who were the principal drafters, but obviously the intent was to give particularly rural poverty. There were two different presidential speeches at that time, I recall. The '73 one was on rural poverty, and then there was an urban poverty in '75, as I recall.

WEBB: Right.

ACHARYA: And you might want to speak to D.C. Rao a bit on that, because I think he got pulled into the urban policy speech, if I remember right.

So, if you like, a landmark public statement by the Bank's president was, I would say, 1973, saying, you know, how critical rural poverty was and the Bank should do something about this and linking it up to rural development. I think from that flowed a lot of both attention and full work on integrated rural development projects which was, in the '70s, very, very high profile, if you recall. You know, Leif Christoffersen and all these guys were involved. You might want to speak to Leif about it. That would seem to me the operational lot.

At the same time on a more intellectual level--again, Richard, you might remember--on the DPS [*Development Policy Staff*] side there was this, not just sort of the kind of policy diagnoses that were prepared in Mahbub, Arun, and all those but the whole *Redistribution with Growth* volume, which was a joint effort between Hollis, Montek [*Ahluwalia*] and so on on the Bank side and IDS [*Institute for Development Studies*] Sussex with Richard Jolly and so forth. For that time that was quite a--it's a collection of essays, really, if you remember it. But I think if you look at a lot of the poverty writing today, what strikes me is that there hasn't been a tremendous advance in thinking on how do you cope with these issues. I mean, okay, you know, there's some technical stuff, lots more household surveys and much more of panel data and all that sort of stuff. But in terms of conceptualizing the issue, it does not strike me as that different from what's contained in that volume which was, I think, published in '74 but the work was done in '72 and '73 for a conference in Bellagio in 1973, I believe. In fact the income distribution division [*Income Distribution and Demand Studies Division*] was set up in '72 with Montek as its head. I know that because Montek and I were in the same division when I joined, the old Standards and [*inaudible*] Division.

WEBB: I had forgotten that division. '72?

ACHARYA: It was set up in '72, the end of '72. In fact, in '72--remember there was a Bank reorganization? And that was when the DRC [*Development Research Center*] got created, and that was when one of the three divisions in DRC was income distribution.

And Montek was given charge of it. And one of the first major things that they did--they did a number of things--but one of the first major things was joint work with Sussex to bring out this *Redistribution with Growth*. And the message of that was that, you know, growth was important for poverty elimination, and it is easier to redistribute from growth than to try to share a stagnant cake. And that's putting it in a very simple-minded way, but lots of interesting insights in that collection and I think it's worth revisiting in terms of long views and [inaudible] Well, different chapters were written by different people.

WEBB: Yeah, and fairly different flavors, too; that's natural. But it's unusual in the Bank's—perhaps even more so now.

ACHARYA: Yeah, I think so, and I think it was a genuinely joint effort, where ILO [*International Labor Organization*] was coming from its sort of much more direct assault on poverty, you know: you had to get to who the poor were and give them access to different things; whereas, the Bank was coming at it more from, if you like, you know, the trickle-down, growth, have the markets work, then the poor would have income, and labor essentially [inaudible] the fiscal endowments of the benefits. I think this—what came out of that [both speaking at once]

WEBB: Are you associating IDS with ILO? [both speaking at once]

ACHARYA: Sorry. That's right. I mixed it up. Yeah. A lot of the ideas people were involved in those ILO red books.

WEBB: Jolly?

ACHARYA: Jolly and various others, Singer, Hans Singer, and so on. They used to bring out those booklets, comprehensive employment strategies.

KAPUR: The ILO hard texts?

AHCARYA: That's right. In fact, I was involved in the Sudan one.

WEBB: Oh, you were?

ACHARYA: Yeah, I was on loan from the Bank to do the Sudan one in the mid-'70s. I did [inaudible] The mission was headed by Just Faaland, who made the decision. I don't know if you knew him. So. But that's an aside.

What I was really going to try to say is that it seems to me a lot of--I'm a bit of a Rip van Winkle, having come back to the Bank after nine years, you know, between mid-'82 and

'90, and I find that, you know, here's the WDR [*World Development Report*] on poverty which was done in 1990 by Lyn Squire and company. And when I look at that and I say to myself, "Hang on. Seventeen years ago what was going on in the Bank was not vastly different in terms of intellectual content."

So in a crude sort of way I think that there is a lot of emphasis on bringing poverty analysis and how to make development poverty-oriented in the Bank's sectoral work and probably to a lesser extent in operations because there was always a lag in the '70s, which I think then got kind of somewhat back-staged in the '80s when, you know, you had the whole era of the magic of the marketplace and privatization and private sector development, which was very much the period of--on the one hand, over here you had the whole [*Ronald W.*] Reagan Administration from 1980 on, and in the Bank's own context you had Anne Krueger coming in place of Hollis after '82, and on the Indian-type side, as well as I think a general disenchantment with sort of public intervention, which I think was coming to the fore in the early '80s, certainly in the Bank.

KAPUR: If you see Lyn Squire's [*inaudible*] he essentially has this kind of a double [*inaudible*] draw this attention to poverty.

ACHARYA: Absolutely. Sort of two and a half legs, I think, as it's described: growth, human capital development, and safety net targeting, that sort of thing.

KAPUR: The human resources development, which was probably less well articulated in the, generally under the Ahluwalia theme, sort of also came through more or less on the basic needs.

ACHARYA: That's right. No, in fact, that's the main--I'm glad you mentioned that, that in fact there was at that time sort of really two schools within the DPS, almost. There was the sort of Mahbub's basic needs, and that was more Sussex and so on and so forth, which kind of said, "Look, basic needs, you set targets. You meet those basic needs somehow. Find"—and, you know, which was sometimes derided as targetry and costing, you know, to get everybody so much housing or shelter or food or this, what would it cost. You know, development economic business. And then you had the more the "What had development strategy to do to give you better incomes for the poor?" I mean I think there was probably more of a difference made out than there really was. I think the--probably the significant difference was that when it came down to measuring trends of what was happening to poverty, if you like, for want of a better, just to use a phrase, the Chenery-Ahluwalia approach was to concentrate on available information which almost inevitably dealt with private incomes and private consumption. Household surveys typically in those days mainly collected information on private income, private income and disposable income, expenditure, et cetera.

So inevitably you had, I think, poor information on use or access to quasi-public goods or public goods. I think that lack likely now to a large extent probably still exists, but there

are now more cases where attempts have been made to fulfill it and to get into the public finance side. That was when the studies by Jake [*Jacob P.*] Meerman and Marcelo Selowsky wrote, you know, on the whole idea of--to ask the question, "From public expenditure, who benefits? In particular, did the poor benefit?" The sort of, the earliest public expenditure estimate studies in the developing countries which made a serious effort, I think, to use micro data to answer--to attempt to answer those questions.

WEBB: Those were in the late '70s, weren't they?

ACHARYA: They were published in the late '70s, but in fact the research proposal--you know how that goes--I remember; I was in the division. Jake was also a colleague of mine in that old domestic finance; Oktay Yenal was the division chief. And I remember very clearly being at the proposal stage, you know, talking with him [*inaudible*] of publication.

WEBB: And this would have been . . .

ACHARYA: This would have been in '73.

WEBB: Oh, that early?

ACHARYA: And the central research people would have the documentation on it, probably.

WEBB: That's right. I remember when I came to the Bank—I came in '75--these things were on their way.

ACHARYA: That's right. And by then they were collecting the data, doing the surveys, and so on.

WEBB: Marcelo's study was?

ACHARYA: Colombia. And Jake's was Malaysia. And both of them are here, if you want to talk to them. More people to talk to. But that was the first, you know, if you're looking for some solid work on . . .

WEBB: That was how the Bank got into this. You're right.

ACHARYA: Benefit incidence of public expenditures. And those studies have stood the test of time, I think, in the sense that you have only a handful of more such studies in the decade or more that has passed. You know, people talk about this, but it's . . .

KAPUR: It's striking, the lack of these studies in a way.

ACHARYA: Yes. In fact, we in the division now are doing some precisely because it's been under . . .

WEBB: The LSMS [*Living Standards Measurement Study*] takes up some of that?

ACHARYA: I'm not a good person to speak to LSMS because in a sense that took off, I think, around 1980 or so on and got funded, and you ought to talk to someone like Dennis De Tray or someone . . .

WEBB: But I'm familiar with the questionnaire because my office in Lima is actually doing one right now, and they include a fair amount of . .

ACHARYA: On use of—I mean, access to foods [both speaking at once] but I don't know.

WEBB: They kind of--in other words, it incorporated much more of the public [both speaking at once]

ACHARYA: No, some of the national surveys in some countries do. For example, in Indonesia the SUSENAS [*National Socioeconomic Survey*], that does it. I know because one of my colleagues here has just recently done a good paper on [*inaudible*] you know, this set of issues, incidence issues, expenditures using the SUSENAS. It's a bit like in India we have NSS [*National Sample Survey*]. It's essentially the analog of that, but they seem to--again, I'm no expert on the [both speaking at once]

KAPUR: Does the NSS [*inaudible*]?

ACHARYA: The NSS tends to--at least, the NSS that I, results that I remember seeing, and I haven't actually studied the questionnaire--used to be much more focused on private consumption, you know. So, but, you know, on all these, if you really want to get into that, talk to--there are good people to talk to in the Bank, and I would say . .

WEBB: [*Kalanidhi*] Subbarao?

ACHARYA: Subbarao would be a good person. He can tell you. And Martin Ravallion. Those two between them can tell you more than you need to know about . .

KAPUR: I've just read the paper which they have written on structural adjustment.

ACHARYA: Right, well, and they know the, they are--in fact, that unit where they are both now in is essentially the successor to the LSMS unit that, you know, was set up. And

the whole motivation of the LSMS unit was this idea that McNamara had: “We must have information on living standards, policies, and what’s happening.” The living standards measurement studies, that’s what the LSMS, you remember, was. And because, you know, otherwise in the ‘70s the typical theme was, “Well, some countries have household surveys. We can use those, and we can get some information from them, but we don’t have [*inaudible*] comparability.”

WEBB: Is this one of the areas of work in your own division?

ACHARYA: The public expenditure benefit incidence side is and also issues of the targeting of public expenditures towards poverty alleviation is. I’m, in fact, doing a conference end of this fiscal year, in June, on what is called something like, “Public Expenditure for Poverty Alleviation: Incidence and Targeting.” We’ve got people like Amartya Sen, [*inaudible*] you know, Martin Ravallion and, I mean, lots of, you know . . .

WEBB: When is this conference?

ACHARYA: June. Come as an observer, if you’re around.

WEBB: Yeah.

KAPUR: We’re having a Volume II contributors meeting also in June, it’s an external group--will be here in the latter part of June.

ACHARYA: So they also could come.

KAPUR: Well, I know we have to be . . .

ACHARYA: June 17, 18 are the dates. And we’ll have it in one of those auditoriums.

WEBB: When you distinguish between “incidence” and “targeting,” “incidence,” I guess you’re referring to general public services whereas targeting you’re thinking more of projects?

ACHARYA: Well, I think, you know, that’s part--I would say the broad thing, if you like, is “incidence” is you take a chunk of public expenditure. You know you can make it as broad as you like or limit it to social expenditures which are more or less allocable in some sense, and then you try and see what the benefits data that you have, you know, household mapping of easier access, cost data on expenditures you map, who’s getting presumptively the benefits, and basically you get some distribution of those expenditures by decile groups or whatever. That’s what I would call the benefit incidence side.

The “targeting” is much more analysis of looking at experiences to see--well, there’s one sort of project that by experience won’t work. Then there are issues here of what, you know, what are the costs of targeting because targeting doesn’t come costless. There is administrative cost, there is leakage cost, there are all sorts of problems. I mean, you know, it’s very standard to find in Bank reports a kind of penchant for saying, “Public expenditures should be better targeted,” but the evidence as to whether, you know, that’s a reasonable way to go in a particular situation often depends on, you know, how well the administrative program is or how much political support it has, is it sustainable. Because, you know, in terms of political economy there’s a, if you like, a prior hypothesis that if you have more universal programs, you can probably sustain them more. And it is true that your real, your target group of the poor may not suddenly get some of the benefits, but they get it for a longer duration, whereas if you target a program to a very poor group, then, yes, you don’t have presumptive leakage in the sense that your expenditures are going where you want them to go, but then the program may get, lose underlying support. But that’s the sort of political kind of issue. We have in fact asked Amartya Sen to talk a little bit about that at the conference. I hope he will.

But there are other more technical issues also of targeting versus--you know, if you choose to target certain segments of a government institution, what does it mean at the margin for things like the marginal tax rate, you know, because if somebody at a certain income is suddenly not to benefit from a targeted subsidy of some kind, in kind or cash, it’s like having a huge negative tax at that point. So there are sort of issues, Ravi Kanbur has done some work on, and he has a paper that is coming out. He’s going to present. But that’s sort of getting into more arcane, theoretical damage, if you like, but important. But that’s not the history; that’s future.

WEBB: This kind of—what you’ve just talked about now--do you see this as relatively the frontier work in the Bank?

ACHARYA: I think it’s work which has now going on for a couple of years here and there. And one purpose of the conference is to try and pull together the several people who have grappled with these ideas in the last couple of years like Martin Ravallion, Margaret Grosh in LAC [*Latin America and Caribbean Region*], and, you know, there are others also whose names don’t trip off my tongue because I’m not that expert on this. But we felt that it would be useful to try and pull together this sort of focus, focus it on public expenditure from a distribution, benefits, and poverty angle [*inaudible*] damage [*inaudible*] Who benefits from public expenditure broadly--that’s the benefits incidence damage. And the more, how can we benefit the poor more, what are the problems and costs and choices we should be targeting.

So, I mean the answer to your question I would give is that, yes, there has been some work, and there is a lot of kind of lip service or at least saying that, you know, “Let’s

target.” And there are a few projects, attempts. I believe, for example, in Sri Lanka there is a project--I forget the name of it--in the Bank there, and there are other projects in *[inaudible]* food stamp program; Martin’s done work on that, and there are various other types of projects around the world some of which have had that, perhaps, but I think probably that in terms of both learning from experience, analyzing, and looking ahead, you know, there’s more work to be done.

WEBB: Is this work being done to a fair extent as a response to needs by operations?

ACHARYA: You know, that’s always a difficult one, Richard, because operations is such a huge affair in the Bank.

WEBB: But I mean even in an isolated or occasional . . .

ACHARYA: I think—I mean, the reason why we’re preparing to have a conference—I mean, when we do an individual study, like Dominique’s *[van de Walle]* on incidence of social spending in Indonesia, we had a . . .

WEBB: That was Dominique’s, was it? [all speaking at once]

ACHARYA: That was Dominique van de Walle.

KAPUR: Martin’s wife.

ACHARYA: Martin’s wife, actually, yeah.

And that had a lot of support from the Indonesia country department; in fact, she got involved in some operational work with them as well. Clearly individual work, provided it’s good, has a sort of self-reinforcing demand and supply, almost like *[inaudible]* But . . .

WEBB: Margaret Grosh worked in Peru in the context of the mission, too, where people were trying to develop compensation loans, private social compensation program associated with the SAL *[structural adjustment loan]*, so that seemed to be very operational.

ACHARYA: That’s right. No, I mean, that’s--we want in this—half of it in this kind of context is to get together with experience, both from the people who’ve been looking at it from the more research mode as well as from the operations experience, and take stock.

WEBB: Is it . . .

ACHARYA: So that's, as I say, what this conference is.

WEBB: Is it a bit harsh to or unkind to remark that this work, which is really trying to make the poverty thrust operational, is coming an awfully long time after--the initiative was born in '72? '82, '92: that's 20 years.

ACHARYA: Well, I think you could come to that judgment perhaps, Richard. My view is that--and I'm not, I have no particular axe to grind on this--my sense is that, you know, at that time people focused on, as I say, the sort of a development strategy, the right development strategy for poverty alleviation which usually meant, you know, labor-intensiveness in manufacturing or whatever, and trickle-down, make the markets work better. You know, use the *[inaudible]* you know the whole work on that *[inaudible]* well-functioning markets for *[inaudible]* That would be like the market side. And the sort of provision of assets to the poor, which is much more the sort of an integrated rural development approach where you identify the poor, the kind of service, then you see whether you can add to their stock of assets on which they rely. I think there was probably--while there was some cognizance, but there was less emphasis on the human capital dimension. That, I think, it was there in all these things that promise people, naturally expect some *[inaudible]* poverty, so high profile. I think that became a high profile, I would say, probably in the 1980 *WDR*. It was very much human capital oriented. I mean *[inaudible]* and all that.

But I think after that you have a period when, as I mentioned earlier, when I think the concern with poverty in a broad and deep way seemed to recede in the early '80s and almost to the end of the '80s, when it was much more--I mean, the agenda of the Bank as I see it, and I wasn't here, so I'm not the right person to talk about it, perhaps, but my vision from outside was the agenda was much more, you know, "Roll back the public/private border line." You know, get focused on not market failure but government failure, make that the case for saying that, you know, "You have to privatize." And then this was the whole period of the whole adjustment lending move, you know, it didn't start in the early '80s, but it was very much its mainstay. The whole debt crisis was another preoccupation of the Bank. And so I think the concern shifted to macroeconomic management problems, to a sort of public/private divide, where should the line be which had, damaging like, you know, private sector development, privatization, and so forth. Some of the old topics, of course, continued like trade policy and all that sort of stuff, the importance of trade policy, fiscal policy in the sense of *[inaudible]* policies. But I think the 1970s' emphasis on poverty you don't find in the middle years of the 1980s in the Bank's work.

KAPUR: If you take as a specific example--I thought as I was going through Ernest Stern's files around '79 when you were *[inaudible]* describe that. Did you work on Tanzania, right?

ACHARYA: Yes.

KAPUR: Well, if one looks at that country as an example, I think it's a very good example of where McNamara seems to have been personally committed because of what he thought were [Julius] Nyerere's good intentions. The record, both the OED [Operations Evaluation Department] study and elsewhere, had some--thought in terms of outcomes was extremely, well, dubious.

ACHARYA: As a matter of fact, we did a--I led a basic mission in '75 to Tanzania and we did a report where we looked at what their accomplishments were, not just the sort of macro, but the poverty thing. I had Paul Collier as a consultant—you know him, Richard, I'm sure--did a lot of solid work in that, and I think in some ways that report turned around within the Bank the perception of the Tanzanian experiment, which until then had a lot of sort of, you know, "These guys mean business, they're really a good leadership, they're real egalitarians, they want to do something for the poor." And there was some truth in all of that. But it's just that in the way the strategy actually worked, it neither made the country self-reliant nor did it really significantly alleviate poverty in that country.

KAPUR: But if you look at the emphasis in ESW [economic and sector work] on, in a sense, that perhaps plays more immediate and important role of how the Bank interacts with a country and its relative emphasis or lack thereof on public expenditures and their effects on the poverty, was that sort of basically data [inaudible] trying to limit it?

ACHARYA: I think that's a fair comment, I would say, from my limited--and I don't claim to know the Bank's overall [inaudible] of that period, but I think that's a fair comment.

KAPUR: And when did you . . .

ACHARYA: I think that that has changed more. I think, you know, it was probably a subtheme after this whole tension. You know, a lot of these things gain momentum once you set up something. For example, once you say the Bank is going to lend in education, lend in health, you know, these things take on their own role, even if the macro rhetoric is different in the debt crisis or this or that or whatever it is. So that I think more and more you had sector work. Some of it was traditional sector work, you know, with that not very exciting, but some of it every now and then, depending on who was doing it, would look at these issues of, you know, I mean, within the public health expenditures, say, primary education, secondary [inaudible] sort of some stuff. So I think that kind of work was also going on.

Again, I'm not a good person to give you a proper feel for the ups and downs of it. You might want to talk to someone like Manny [*Emmanuel Y.*] Jimenez, who worked a lot in this area as an analyst and has known the Bank on at least during the last decade on this. He would be a poor reporter for the '70s, of course; the '80s he would give you a flavor of what went on. And these issues on the research side were there because of people like Dean Jamison and Larry [*Lawrence J.*] Lau involved in—I remember because I was on the research committee then; I was in their co-office--doing these kind of studies on Nepal and showing how primary education had a big impact on agricultural yields and so on. You remember Dean's work.

So it wasn't as if these things were there in the Bank. Almost everything is always going on all the time because it's such a huge place. But on the ESW, your proposition that in the '70s there wasn't much of this, I would say, you know, looking at public expenditures in a policy sort of way to see what kinds of allocations, inter-sector allocations or intra-sector allocations within the social sectors as a group, that would probably . . .

KAPUR: But I am sort of struck by looking at all these--well, I've just, because one knows India a little bit, but not much--but just looking at the CSPs [*country strategy paper*], I thought that's a good way, just look at a few countries and see what the CSPs say. And it's striking that either because of the personal relationship between McNamara and Mrs. [*Indira*] Gandhi, which was very much of course of a factor, but how the intentions were taken at face value of the very [*inaudible*] But there is not much specific change on the government of India's budgetary allocation, state government budgetary allocations and where they are going, and their consequent effects on poverty. It's much more, "We are lending on agriculture so much and therefore we are doing good work on that poverty." That seemed to be . . .

ACHARYA: Yeah, I mean that's--you know, in any country, without sort of going into the country history it's very hard to know the causation. Some of it could be that the country didn't want the Bank involved in particular sectors. [both speaking at once] I think in India there was on education there was a sort of an anathema--I mean, I'm not saying that it was right or wrong, but I think there was and there probably still is sort of . . .

KAPUR: Now they've started it.

ACHARYA: It's beginning, yeah. So there's that factor.

There's also the factor that whenever the Bank's "macro rhetoric," if you like, in terms of presidential agendas and, you know, put out in all our public documents as to what we think are the real issues, there's a lag between that and what happens in economic sector work or project work and sometimes it gets caught in the middle of a particular episode, but there is a lag. But I don't have enough of a flavor of across the universe what was happening in countries in ESW from this particular point that you're making.

KAPUR: Do you sense that now that is much more?

ACHARYA: I think so. I think so, actually. I think there is more so, anyway, than earlier.

KAPUR: I mean, statements like the “governments spend X percent on the defense versus X or Y on [both speaking at once] health, education” brings that.

WEBB: Does your office relate much to mission work or preparation of CSWs [*country sector work*]?

ACHARYA: We don't do the preparation of CSWs, but we do operational support like in the old days in the [*inaudible*] department. It's very similar to the old department that you and I once were colleagues in, and . . .

[End of Tape 1, Side A]

[Begin Tape 1, Side B]

AHCARYA: . . we do a lot of this work because I think one thing that has changed, Richard, is that I think the operational economic staff has expanded a lot compared to when we were in DPF [*Development Economics Department*] together in the '70s so that I think a lot of work gets done with their own staff and consultants.

WEBB: Even in your field?

ACHARYA: Yeah.

WEBB: Each region would have a . . .

ACHARYA: That's right. They would have—I mean, typically they would have a human resource division which may be dealing with some expenditure analysis, and we may not even know because, you know--the sort of older integration between the DPF I think was stronger in terms of review functions and so on and reports. Now it's much more, I think—post '87 reorganization I think the sense of it is that, you know, “Regions, you go and do your own thing. Do it well. Call on these other guys for support if you want, but they're not to be seen as in any sense trying to control you.”

WEBB: So you have more of a conceptual role, yeah.

Do you have much contact with [*Vito*] Tanzi's group?

ACHARYA: Yeah. Well, I mean we are a division; they are a department. In that sense there's a scale factor. They are about 60 professionals now, and they're expanding very much. Probably go up to 90 in a year because of the new membership, expanding very fast, and we're only 12, 13. So . . .

WEBB: They do a lot of technical assistance, don't they?

ACHARYA: They do a lot of technical assistance. Until very recently the technical assistance has really been on tax and expenditure control mechanisms. The sort of expenditure issues that you are raising, I don't think they've done much on. They've done a little bit in the last year or two because of the presence of one or two of the staff, like Ehtisham Ahmad, who's come from LSE [*London School of Economics*] where he was Nick [*Nicholas H.*] Stern's very close collaborator, and he spent a year here, actually, before I came, but then he moved over there.

So the Fund is now getting interested in expenditure allocation issues both from an efficiency angle and distribution. Earlier their interest was, I think, very much on macro, though they've always had--not always--but they have certainly had for a long time something called a government expenditure division in that, Tanzi's department. It used to be headed by Peter Heller, whom you've probably have heard or you might know. He's done a lot of work on--he used to work on issues like recurrent costs and things like that, and then he's done--now he's, I think, an operational unit chief on Kenya and other countries, but he's a very knowledgeable person to talk to about on the Fund's role in expenditure if ever you wanted to.

KAPUR: Does the Bank see the [*Raja J.*] Chelliah report, the Bank's providing support for [*inaudible*]

ACHARYA: Sorry. Which Chelliah report are you talking about?

KAPUR: The one that's just out [*inaudible*] it's done.

ACHARYA: Yeah, it's done but I mean I haven't seen it. I think it's still with the government in India. No, and that was an internal kind of analysis.

KAPUR: [*inaudible*] smaller countries it might.

ACHARYA: We have, yes, but, I mean, certainly from this division before I came we've had been quite deeply involved in tax policy, analysis, and advice for countries like Malawi, Bangladesh, China, so there are--those are more—I mean picking up some intensive exercise as opposed to just writing one chapter of this book. In Bangladesh I know that—because I was there [both speaking at once] did a very major bit of work. On

China, Christine Wallich, *[inaudible]* others did a major bit of work. I think the Bangladesh one has led to more operational changes on the ground. Malawi had earlier a lot of work by *[inaudible]*

KAPUR: How much has this become part of adjustment loan conditionalities?

ACHARYA: Quite a lot. You should—actually, the straight answer to those questions in the sense that--I'll give you an example. We did a paper for the Board shortly after I came which will answer on the facts.

[Pause to search through paper]

ACHARYA: . . world trade, nvironmental protection, that's on that side, the country's side. Somewhere there's talk of all this. I can't now remember where we put it. Energy--energy was also there very much.

KAPUR: Right. [all speaking at once]

ACHARYA: Well, I'm sorry. I know that we did introduce the thought, but I'm not really--I cannot remember what was going on in terms of the policy. And this was--I think what happened is after the oil shock there was a stronger attempt of, you know, the Bank should go in for lending which is linked to policy. You know, this debate had been going on for several years, that why doesn't the Bank do more lending which is linked to policy as opposed to financing investments and limiting it to investment conditionalities directed to power projects and that sort of stuff. Why not more . .

WEBB: This was going on in the '70s, wasn't it?

ACHARYA: Yes, even in the '70s some people like Stanley Please, who always felt that, you know, the Bank should try and put its lending to support required policy change. So the ideas were there—but, you know, there was the winning idea, if you like. After the second oil shock I think somehow the time came, and I think from the early '80s you see adjustment lending actually occurring.

KAPUR: Right.

ACHARYA: I'm a poor commentator of that time because that's when I was in the research office, so you should really be talking to someone more operationally linked.

WEBB: Yeah.

ACHARYA: Then after the *WDR* I went to the policy [*inaudible*]

WEBB: That's right. That's right. I had forgotten.

KAPUR: How did you see the institution, when you were only sort of so-called on the side?

ACHARYA: I deliberately kept out of operational contacts with the Bank in project work, tried not to get involved—because my job was much more macroeconomics and fiscal policy as an adviser. So I didn't have a lot to do with any project operational work, or very little. I used to get involved in reviewing the, you know, green cover country economic reports for each year on India and publications of that type.

I don't know that I have a—I mean, I know if you asked a particular question, but I'm not sure. In a sense I already told you what my, compared my sense of what was happening in the Bank.

KAPUR: Right. So in a sense it was--one might sort of see things from one point of view but have a different perspective on either the quality of the reports or what was being missed out.

ACHARYA: There were some very good reports that were actually done at that time, some sector reports, you know, good family of reports from some sectors, ranging from, you know, teas and then all sorts of stuff, you know, industrial subsectors and on the regulatory framework and so on. So I think, you know, there were quite a good bunch of reports done. Afterwards--financial sector later.

At that time India was not involved in any adjustment lending operations, so in that sense one was a little out of that loop which was very predominant here. Nor was India at that time in one of the debt--really it wasn't just that kind of really, it wasn't until India--this country wasn't [*inaudible*] at that point. So that again those preoccupations were not paramount if you're looking at the Bank from India, much more a regular kind of portfolio. The concerns were that IDA [*International Development Association*] share declining and so on and so forth.

WEBB: Let's come back a minute to taxes, this failure of the objectives of tax reform, first of all to generate more revenues.

ACHARYA: Did you read my [*inaudible*]

WEBB: Uh-huh. And then come all the others, the huge distortions, increased inequity, and obviously all the time there is a tug of war going on when you're trying to design the particulars for a particular moment in a particular country. All the time that I interacted with the Fund and the Bank in the '60s, my sense is that I don't think there's ever been

any question but that the number one priority by a long goal was first to reach that objective. Both the Fund and the Bank would always call for anything that would generate more revenues. Other arguments were sometimes brought in more as a reinforcement; for instance, it often would be pointed out that the fuel tax was progressive, and that was pointed out with emphasis and with some excitement often by mission people because the fuel tax was one of the principal instruments for raising more revenues, and they were trying to sell it politically by pointing out that it was also equitable. But there wasn't--I've never seen much kind of very high profile concern with the other aspects or the other objectives of tax changes. Almost always tax changes are being discussed in the context of rather dramatic situations, a country is drowning in huge deficits, inflation—adjustment, we've been talking in terms of adjustment situations by definition. And it always seems that in those contexts everyone has to agree that anything that conflicts with generating more revenue has to be postponed, no matter how concerned they are. What's your sense of this? Am I wrong? Are there many cases where an equity objective has overridden? Is there enough room here to play, that you can also reconcile adjustment?

ACHARYA: You know, my sense, and I—you know, again, having been away for a long time in the mid-'80s, the late '80s--is that you're right that in the '60s and '70s when the Bank reports—and I'm not speaking for the Fund--Bank reports talked about that issue, the emphasis tended to be on increasing revenues. In fact, I remember in 1980 somebody did a review of Bank fiscal work in which I think there were certain *[inaudible]* Parthasarathi Shome and . . .

WEBB: How do you spell that?

ACHARYA: S-H-O-M-E. Shome in EDI [*Economic Development Institute*]*—perhaps I'm mixing it up. He did a review of Bank fiscal work, and it tended to find that too many country reports just said, "Raise revenues," even in the '70s before the stabilization process had been marked or hallmarked.*

Now, I think that though in the '80s there were quite a few cases where you also had a lot of concern with the allocational issue, not just the stabilization issue, but the question of tax structure, moving away from foreign trade taxes, you know, Bela Balassa type thinking in the '80s. I think these were quite high on the agenda of quite a few reports of the '80s and perhaps a few in the '70s but very few.

I think the equity side probably was less pronounced because in a sense if you look at what was happening in the '70s and '80s as a result of tax reform and so on in the developing countries, probably the single most striking thing is the sweeping changeover to VAT [*value added tax*]. You know, in 1965-'66 you could probably count not more

than a dozen countries in the world which had VATs, and most of them were in the EEC [*European Economic Community*]. Now I mean I think there's probably forty-five, fifty developing countries which have some form of VAT.

WEBB: Which happened mostly you think in the '80s.

ACHARYA: I think it mostly in the '70s and '80s.

WEBB: '70s.

ACHARYA: No, '80s probably more. Well, I don't know. Sorry, I can't give you an answer. My sense is '70s and '80s, and from mid-'75 to . . .

WEBB: The way it began in the early '70s . . .

ACHARYA: Well, I would say mid- or late '70s, not earlier than the mid-'70s, and by-- in the '80s you had major countries, a lot of them doing it, like Indonesia, Korea, and so on. And Latin America, I think, the tradition started earlier. Brazil had already had some form of VAT in the '70s, and probably the Latin American countries got into VATs earlier than most other developing countries.

But the reason I mention that is again in a very simple measure, one makes simple statements, VAT was a good tax for reform-based, revenue-raising tax with relatively small allocational resources, an institutionally defined VAT, anyway. Where it's not a great—I mean, it's not a great equity-promoting tax because essentially it's like a flat-rate tax on some luxuries, you know, if you are having a 10 or 15 percent VAT. Conceptually you can think of consumption VATs or income VATs, but most VATs are consumption VATs. One can think of it, you know, as a sort of flat-rate general state tax. Now, in a sense that's okay, but potentially it's regressive. Typically, of course, tax structures where VAT is important also compensate for regression by having an income tax and excise and fiscal policies. But the point is that I think, in response to your question, I think that it wasn't just raising revenues. I think the allocational side was important.

WEBB: Or became important.

ACHARYA: Became important. I think the concern with equity was less pronounced on the tax side. And really if you're talking about poverty alleviation, taxation has not, as a first round, much to do with it. I mean, the tax structure affects poverty indirectly through, you know, whether they—kind of pattern of development or it's not a direct influence, it's on the margin. In most countries the poor are outside tax nets anyway.

KAPUR: Well, you know, the equity issue, one sees in the first *WDR*, McNamara was creating pressure for numbers on poverty. In general he seemed to be very concerned

about it, and yet that never translated into, say, on the fiscal or for the tax side of the Bank's work, at least his rhetoric in terms of the Bank's cooperation agreements and fiscal practices.

ACHARYA: Yeah, I don't have a flavor of that period, really. I mean, you know, I was in a part of the Bank then [*inaudible*] I don't really have a flavor of that.

WEBB: Did Anne Krueger ever say . . .

ACHARYA: I was never here when Anne Krueger worked here. I didn't overlap at all, so I'm the wrong person to ask. I left in 1982.

WEBB: That's just . . .

ACHARYA: Just couple of months before Hollis left. The only time I met Anne is when she came to my office in India when she was in India [*inaudible*]

WEBB: But this is a fair question for you, anyway, because it really is essentially the same priority now, even though it's more strident, perhaps, a more dramatic sea change under Anne, namely privatization and cutting down the state. And it's still a Bank priority . . .

ACHARYA: [*inaudible*] yeah.

WEBB: Yeah. Has the Bank ever said, therefore, "Let's cut taxes instead of raising taxes." What one hears is still talking about raising taxes, is just the objective number one of tax reform. As far as I know, policy makers have said the objective number one is to reduce . . .

ACHARYA: Well, here, if you do, I think you'll find that it does say, "Consider," you know, "cutting expenditures first as an alternative to taxation," and then to [*inaudible*] that quote is there.

WEBB: Not just a footnote.

ACHARYA: Not just a footnote. I'll show you. Let me show it to you so that you are familiar with it.

KAPUR: Are you saying that if you want to go for privatization, the best way is for a state not to have the money [*inaudible*] in fact turn to privatization?

WEBB: Yeah, I don't think anyone could disagree with you, but if you give the government more money, it's going to spend it, but . . .

[Pause to locate paper]

ACHARYA: Yeah.

WEBB: I see. It's right there.

ACHARYA: Right there.

WEBB: For recommending measures.

ACHARYA: So, not guilty as charged.

KAPUR: So I guess the most subversive thing which could be done if the Bank was serious about privatization was to find ways of fiscal changes which would reduce tax revenues. The government would be forced . . .

ACHARYA: Yeah, I mean yes, sure. In a sense that's happening in many countries, by the way. I think that the capacity of governments to sustain or expand the domain of public enterprises is now much limited because of the yawning gap between general revenue and general expenditures. And that's not surprising anyway, that the Bank has to have a . . .

WEBB: But despite this, you clean your act, as it were, with various things, but when the Bank sits down with the government in an adjustment situation, all they talk about is how to raise revenues.

ACHARYA: Could be. You know, I--well, look, I mean in a practical sense, you know [all speaking at once]

WEBB: Even though the allocational part [both speaking at once] and even inequity will be brought into the conversation, but really what everyone is concerned with is . . .

ACHARYA: No, there--I'm speaking only from the limited Indian experience and a few other missions that I went on for the Bank, but—you know, you've been in government, too, Richard. You know that in practical terms it's usually easier--and governments usually have more flexibility for, in terms of handles, on the revenue side than on the expenditure side. And expenditures are very hard to deliver great expenditure reduction. You can either let inflation take care of it willy-nilly, or you can expand programs because people want populist kind of programs. But cutting always tends to

very soon get into issues of wages and salaries of public servants, and that's why there's sort of much less leeway.

And that's true not just in developing countries. I mean, if you take how hard it is to get expenditure controls of a meaningful kind in the industrialized countries, you require Margaret Thatchers and others to kind say "no" and cut out various things. And it's just very difficult because the lobbies are very strongly embedded in expenditure programs, I think, politically articulated and so on. So in a public situation where a country is facing incipient or ongoing inflation, bouncing interest rates, and, you know, the Fund or the Bank comes in and says, "Look, close the gap between your fiscal deficits," I think most governments just find it easier to talk about making promises in terms of *[inaudible]* taxes. It was from *[inaudible]*

WEBB: Another aspect--I don't think it's minor--is that in, particularly in SALs one is looking for very concrete, measurable measures, you know. It's much easier to do on the tax side than on the revenue. The Bank's really stuck here right now. It's something [both speaking at once] it has to live with because it wants to reduce the state's debt obligations, but it's trapped in a situation where it's always in fact helping . . .

ACHARYA: Yes, but it's--one whole domain of Bank work which in fact has influenced the level of expenditures, the whole system of public expenditure reviews which, you know, have been going on in the regions, sometimes with participation of the Public Economics Division and others, but those reviews have been very much targeted at looking at the envelope of expenditure as well as composition and weeding out. I mean, weeding out white elephants is the easier part. There's full public expenditure review and public investment review. And these too have been--have often led to an--they start off as part of economic sector work, but then they lead also to the conditionality in adjustment loans. So I think it would be a mistake to suggest that--and this paper focuses on that--I don't think you should jump to the conclusion that the Bank does not get too involved in the expenditure side in adjustment lending. It does. Particularly in Africa it's my impression that they've got a lot involved, or Bangladesh and other countries, Brazil, I think. But there's been a lot of these public expenditure reviews.

KAPUR: During the '70s we see the Bank's focus on that investment reviews . . .

ACHARYA: Right. But it's been much broader in the '80s.

KAPUR: [both speaking at once] I was wondering if--it probably seems to us that when the shift began to occur, did it really become sort of part of sort of CEC [*Country Economics Department*] involvement, that you had to have public expenditure. Who

would be a good person who was involved to talk to about that? Would it be the chief economists in the regions or *[inaudible]*? Guy *[Pfeffermann]* might?

ACHARYA: Well, I think Guy might, but, I mean, I think because it's an Africa thing very much, you could talk to . . .

[Pause to locate name]

ACHARYA: I mean there are a lot of individual task managers who have a history with that. You could talk to Lyn Squire. He might have a sense. He's both the chief economist and he headed the division at one point. Another person who's actually done some review of this—internally, anyway--is Martha de Melo.

WEBB: Oh, really, yeah.

ACHARYA: Martha would be a good person.

Now, all of these public expenditure reviews—at least of the earlier generation; I mean, that's changing again--you know, the focus there was very much--it wasn't so much on equity; it was much more on how to cut the least cost to efficiency. That would be a broad task. Or how to contain; sometimes you couldn't cut but you could contain the growth. And it's linked up with issues like civil service reform, which has been a big thing in the '80s, also. The Bank got involved sort of in the whole wage growth and so on. There was a policy paper on this which, I think, was completed last year after *[inaudible]* Mary Shirley did that. You've probably seen that. So I mean that's where a lot of expenditure work is going on.

KAPUR: But still it's, in a sense, would it be correct to say that the relative emphasis on public expenditures, if one looks at primary education, how those expenditures are, where they are and so on and so forth, that seems to be, have been, at least, less?

ACHARYA: I think that's been less in the public expenditure review broadly defined. In terms of sector work, some gets into this. And sector reports, that would be—certainly if you talk to someone like Nancy Birdsall, who's just come to this department from LAC, she'll say, “No, I mean, look, we used to do this.” She might say that, and she sort of said that in the context of project review. But I would say that that's a good hypothesis, Richard, and that that's consistent with what happened, that the main focus was not on equity; it was on how to reduce the public expenditure total, least efficiency cost, weed out white elephants, do something to the wage policy of government or the hiring policy of government and so forth, and that sort of thing.

We are, in fact, there's right now a review of Adjustment Lending III going on in Punjab, and in that my division is in fact doing one of the major chapters which is on the composition and level of public spending, sort of reviewing.

KAPUR: When would that be done?

ACHARYA: That's going to be out in--I guess there will be a kind of a draft going to the Board sometime the end of March.

WEBB: That's all public expenditure?

ACHARYA: No, I mean there are three chapters, but the third chapter is on public expenditure, unlike most of the [all speaking at once]

KAPUR: Could we get a copy of that? I mean, I can go to the Board, but before . . .

ACHARYA: Before--I don't sort of see why not. I would just--the task manager on this is--in fact, talk to Martha. And since she's the task manager, I don't want to kind of [inaudible] but I tell you there are drafts.

And that's one of the things that's coming up which is that, you know, insufficient attention had been paid to kind of intra-sector set of issues in [inaudible] I mean, it has been less analyzed, less conditionality in loans, and so forth [both speaking at once]

And another one is, another area where we need much more attention to be paid is non-wage operations, maintenance and so on and so forth. It's been a crying problem in certain countries which have been expenditure-strapped or revenue-strapped.

KAPUR: Spare parts.

ACHARYA: Yeah and all that. Road maintenance and all those things . . .

WEBB: The minister of finance of Peru has to take his own roll of FAX paper to his office if he wants to send a FAX.

KAPUR: [inaudible] I read that the Peruvian army has to bring their own bullets.

WEBB: Yes, some policemen have to buy bullets. They don't get enough bullets so they want to [all speaking at once] We're very advanced!

ACHARYA: Well, yes, I can see you're very advanced! Well, in India whenever we used to have these expenditure cuts and especially when things like, you know, you couldn't use the staff car for something or other . .

KAPUR: No first class. They cut down on foreign travel.

ACHARYA: All sort of things.

You know, the thing that people find always very difficult to grapple with is wages and salaries.

WEBB: Yeah. Well, this has been terrifically helpful.

ACHARYA: I don't know. What was nice was the pleasure seeing you again, Richard. And you, Devesh.

KAPUR: Thank you. I remember first seeing you—I'd just come as part of a project when--remember Oktay [*Yenal*] had a . . .

ACHARYA: Yes, yes, I haven't even come to that. I was just moving in. [all speaking at once] I remember that. I actually came in December.

KAPUR: Oh, I see. I don't know if this might interest you, but in April the American Institute of Asian Studies is having a conference in Washington, and they have a session on the politics of liberalization in India.

ACHARYA: Politics of liberalization in India?

KAPUR: Yes. One year after [*inaudible*]

ACHARYA: Right. Are you giving a paper or something?

KAPUR: No, I'm not giving a paper. There's a guy who I knew who has a [*inaudible*]

ACHARYA: Yes, I think I've seen something.

KAPUR: This is a sort of smaller panel, but it's more political than economics. I'll send you [*inaudible*]

ACHARYA: If I'm around I'll get there.

WEBB: Okay!

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