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Transcript of interview with

DAVID KNOX

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By: 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.

David Knox
May 21, 1992 - Verbatim

[Begin Tape 1, Side A][1]

WEBB: Could you tell us a little more detail than we know about your career in the Bank?

KNOX: My career?

WEBB: Mm-hmm.

KNOX: Well, I joined the Bank in 1963 in what was then called the Development Advisory Service.

WEBB: Harvard's?

KNOX: No, the Bank had a Development Advisory Service. This, I think, had been largely the brainchild of Dick *[Richard H.]* Demuth. I'm not absolutely sure of that, but I think it was largely his brainchild. And the idea was to have a group of people who would be seconded to governments in various parts of the world to act as advisors. And I joined that. It was Dick Demuth and Mike *[Michael L.]* Hoffmann working with him who recruited me to the Bank for that service. And I said that I would like to spend a year in Washington just getting to know this place before I was shipped off anywhere to try to advise any government.

And during that year George Woods, who was then president, came to the conclusion that the Development Advisory Service was not really a good idea--I think probably for good reason--because he had come across examples of what appeared to be conflict of interest or--perhaps "conflict of interest" isn't the right word, but of uncertainty, I think--uncertainty in the minds of ministers in different parts of the world as to, "Was this advisor advising on the basis of his own experience, or was he telling us what the Bank thought we ought to do?" And you can see the kind of problem that would arise there. Particularly, the government would follow the advice of the advisor, and then somebody from the Bank would come along and say, "Why the hell did you do that?" *[Laughter]*

WEBB: Right.

KNOX: And George Woods came to the conclusion that there was too much of a risk of friction and possible conflict arising because of this, and he abolished the Development Advisory Service. It couldn't have lasted very long, but if you haven't come across it, you may like to look at people like—what's his name? Edgar Veazy, Sir Edgar Veazy. He was a member of this and--gosh, I can't think of the others offhand now. It was a group of about, I would say, ten or twelve people, and perhaps it lasted only two or three years.

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[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 *[ ]*.

Anyhow, that's how I came into the Bank. My first job here was loan officer for Argentina in what was then the Western Hemisphere Department. I moved from there to being a division chief. I was a division chief, incidentally, for--it was the combination of Argentina, Bolivia, and Peru. I did that for a couple of years, 'til the end of 1966. And then I was asked to become what was then called assistant director of the public in charge of the--assistant director of the projects department in charge of public utilities, a hell of a long, complicated title! And I was put in charge of what was then the public utilities section of the old projects department, which was a single department which handled all of the Bank's projects, the different aspects. And it was . .

WEBB: That was under *[Warren C.]* Baum at that time?

KNOX: No, that was under Siem Aldewereld. Siem Aldewereld was the director; Bernard Chadenet was his number two. Warren at that time, when I became the assistant director in charge of public utilities, had the corresponding post of assistant director in charge of transportation. And it was--I held that job for two years. And during that period--Bob *[Robert S.]* McNamara was then president, and he decided that this great, big project department ought to be split into a series of separate departments, and the public utilities department became a department in its own right, and I became the director of that. And at the--let me see, now--I started back in January '67. I went on until the fall of '69 when I was moved to the transportation department. By that time Warren had become the number three in what was sort of the oversight group which still kept control of all the different projects departments. That oversight group was still Siem Aldewereld, Bernard Chadenet, and Warren Baum, and they had various other people working with them.

So I held that post from the fall of '69 until the reorganization of the Bank in '72. And in October of '72 I became the director of the Latin America regional projects department, and I was there until '76 when I moved to the same job as director of the Europe, Middle East, and North Africa projects department. And I was there until '80 when the Bank made me vice president for West Africa, and after three years and—no, it was four years, in '84 when Nicky *[Nicholas]* Ardito-Barletta took himself off back to Panama to run for president, the Bank had to find another vice president for Latin America double-quick, so they put me into that job.

That was my last job in the Bank. I was there until '87 when I had a "big row," shall we say, with Barber Conable about his reorganization of the Bank--which I thought was a piece of nonsense, and particularly the way he was doing it, which was absolutely brutal as far as the morale was concerned--and I was in effect politely asked if I'd get the hell out of the place. So that was that! That's my career in the Bank.

WEBB: So you had a . . .

KNOX: So I did a variety of things, as you can see, which made it extremely interesting because I saw the Bank from different angles and I was never long enough in any one job to get bored with it, which was very nice.

WEBB: And you were under three presidents.

KNOX: Yes. Yes, I started with George Woods, then with Bob McNamara--well, four presidents, four presidents, because Tom *[Alden W.]* Clausen, and then I ended up with, I had a year with Barber.

WEBB: And you had several years' contact with Peru.

KNOX: That's right because I was first a division chief. That was ‘65. It was March ‘65 to the end of ‘66 that I was division chief, and I saw a great deal of Peru again when I was director of the Latin America projects department, ‘72 to ‘76, and again finally when I was vice president for Latin America.

I'm afraid I didn't see eye to eye with Alain Garcia.

WEBB: Yes, well . . .

KNOX: I suspect you may not have done, either.

WEBB: Not many people did. After the first year--it was romance *[inaudible]*

KNOX: Yes, yes. I--one of my last missions for the Bank was, not long before I left--it must have been in about April of ‘87--when I went to Peru to have another attempt to persuading Alain Garcia to change his policies. In some ways I was trying to persuade him that he was heading for disaster, but there was absolutely no meeting of the minds at all. He was talking one language; I was talking another language.

WEBB: Right. Was that--I guess that was ‘87.

KNOX: That was ‘87, right. I think it must have been April ‘87, something like that. It was not long before I left the Bank. That was my last mission for the Bank.

WEBB: Yeah. I was also trying to persuade him at that time.

KNOX: Were you? We had a very interesting conversation, a very pleasant conversation, but absolutely no point on which we, I think, came anywhere near meeting.

WEBB: Did he charm you at all?

KNOX: No, I don't think he charmed me. I don't think I--I found him a very pleasant man to talk with, but I also thought he was incredibly wrong-headed.

WEBB: He charmed many people.

KNOX: It would appear that those of us who said he was heading for disaster were unfortunately only too right.

WEBB: Yeah.

KNOX: I didn't come out of the meeting agreeing with him *[inaudible]* if that's what you meant, did he charm me. I [both speaking at once] *[Laughter]*

WEBB: No, no. I didn't mean that. I meant whether you came out feeling that you'd really like to help him.

KNOX: Oh, yes, yes, but . . .

WEBB: **"**This is a nice guy. I just wish I could . . ."

KNOX: Yeah, I would have liked to have helped him. I felt that about a lot of people, I should like to help them, but somehow or other I just couldn't find how to do it.

WEBB: I don't think you'd feel that way with *[Alberto]* Fujimori.

KNOX: No, well, I've never met him, of course.

WEBB: You'd come out feeling this is a son of a bitch!

KNOX: Really? No, I feel--you're quite right--charmed, in that respect, because I did come out of the meeting saying, "My God! How the hell do I help this man? It would be so nice if I could. But I just don't see how to do it because what I say, he says the opposite." I felt that I really was not communicating with him at all.

I had the--I had the same reaction in some respects with Fernando Belaunde Terry. Of course, a different, a totally different man, but he was away on his Carretera Marginal de la Selva and all those wonderful projects, and I was saying, you know, "Cool it, cool it, cool it!!"

WEBB: Even though you were then working on projects?

KNOX: Yes. Well, I saw—I saw Belaunde not so much in his second administration--Was it his second or was it his third? But I saw him when he was president in the '70s, when he--just before he was deposed by the military.

WEBB: In the '60s.

KNOX: '60s, was it?

WEBB: Mm-hmm.

KNOX: That's--okay. That's when it was. I've forgotten. But I--again, a delightful person to talk to. I found him extremely pleasant.

WEBB: Oh, you were there--when you were division chief, Garcia [both speaking at once]

KNOX: It must have been. It must have been there, that's right. That would be then [both speaking at once]

WEBB: So, you were looking at the big picture, then.

KNOX: Yes.

WEBB: I was working in the central bank those years.

KNOX: We may have met then. I don't know.

WEBB: It could have been, and that's why your name is so familiar. It has been for so long.

KNOX: Because I was in Peru frequently at that time.

WEBB: I was in charge of research, and I wasn't into, in policymaking.

KNOX: Well, I went to Peru several times when I was division chief. I had several meetings with Belaunde. But only, again, we were never quite—we weren't as wide apart, far apart as I was with Alan Garcia. There were a number of important differences, I think.

WEBB: I'd be hard put to say which was more stubborn.

KNOX: Oh, yes. Belaunde is a very stubborn man, too.

WEBB: Very charming.

KNOX: Oh, exactly. That's just what I mentioned. He was very charming man, a delightful person to talk with, delightful person to have lunch with *[inaudible]*.

WEBB: There are a lot of areas that we'd like to touch on. Maybe we could start towards the end. I guess this is one of the areas, one of the topics that we've been talking about a lot recently has been the debt area, and in your last period, I mean, you really lived that at the beginning of the--you were in Latin America in . .

KNOX: '84-'87.

WEBB: '84.

KNOX: ’84 I became . .

WEBB: Early ’84, do you remember?

KNOW: May, May or June of ‘84. Perhaps it was the first of June '84. I know it was just before the end of the Bank's financial year that I became vice president of Latin America, and I was there until end of May, May 31, 1987.

WEBB: And you also saw the debt crisis hit West Africa.

KNOX: Yeah.

WEBB: What--do you have a general sense of how the Bank, the Bank’s reactions, how it handled this?

KNOX: Well, yes, I suppose I do. I very well remember when I--one of the very first meetings I had with people in the Latin America region of the Bank in ‘84, and one of my first questions was, “What is the Bank doing about the debt crisis?”

And the answer I got was, “By and large, very little.”

And I said, “Why? Surely this is critical; it’s vital to these countries, and should we not be trying to do something?”

And again the answer was rather, “But surely that's the--the Fund has been trying to do that, and we shouldn't be meddling around with it too much.” Not that the Bank had done nothing. There had been--there had been some things, but not, I would say, a great deal.

And then I began to think about what we could do without, I must say, any very clear ideas of how we could handle this situation, though we had begun--I think I could say correctly--in early ‘85 we began to try to develop some of the what later became structural adjustment programs and later were developed into the *[James A. III]* Baker Plan. I well remember, you know, being told by journalists in late ‘85 or ‘86 that the Bank was hadn’t done, had not yet done anything on the Baker Plan. I said, “Hell, we've already—we’ve done these sort of things before Mr. Baker ever made his speech. We don’t--just started it.” In other words, we had begun with this idea that by judicious lending we could help to restore growth, help to strengthen exports, balance of payments, and therefore help the countries to work their way out of the debt crisis.

I don't know whether you've seen the papers prepared at the time. They were--some of them were prepared before Jim Baker's speech in the fall of ‘85 at the Annual Meeting (and that would be in Seoul), and most of them were prepared in the months immediately afterward. But they were all papers--these were individual country studies which argued that it would be possible by increased lending, and particularly by quick--on the part of the Bank--quickly disbursing lending, to inject a sufficient amount of capital into countries so that combined with policy changes they could resume growth and in particular strengthen their balance of payments.

WEBB: These were papers . . .

KNOX: These were all individual country studies and it--they must be around somewhere in the Bank.

WEBB: In--for the region or for the whole Bank?

KNOX: No, they were--well, I'm thinking of the ones done in the Latin America region. After all, I mean, if you talk about the Asia region or--I mean, there wasn't the same kind of problem. The African problem is a rather different type of problem, and it’s—so I--and by that time I was no longer dealing with Africa, so I really don’t, I'm not up to date at all on what they were doing. But certainly in the Latin America region we did a series of studies really asking, trying to ask and answer the question, “Is it feasible for countries to grow out of the debt crisis?” In other words, to have a rate of expansion of exports great enough to start, to meet the additional debt that they would have to incur, the additional borrowing they would have to incur to get the external financing needed at the time and service all of that plus the debt they had already incurred and work their way out of it in the sense of gradually reducing their debt. And those papers, looking back on them now, I would say they were extremely optimistic, but they all argued, country after country, that this was feasible, that you could bring about a sufficiently rapid change of policy and a sufficiently rapid impact of that policy to have a resumption of growth, and I would say in particular, given the problems of debt, external debt, a rapid enough expansion of exports.

Now, I don't know when I first began to get more and more worried about this, but it must have been probably late ‘86, certainly early ‘87. By that time I was already very concerned that we had just been overly optimistic, very, very optimistic, on two points: firstly, the speed with which governments could be expected to introduce the policy changes that we were talking about, and also the speed with which those policy changes could begin to produce results. I don't think in, when we were doing this work in ‘85 we really understood the complexities of the macroeconomic or developmental problem, if you’d like to call it that.

You know, the fact that--take Argentina, for example. It's one thing to say that, okay, that by a sufficient degree of devaluation you could make Argentine industry competitive on the world markets. In a sense that's true, you can. But in the case of Argentina the devaluation has to be so massive that the inflationary consequences were horrendous, given the state of Argentine industry. And I don't think we fully appreciated how much restructuring of industry, strengthening of industrial efficiency, had to be undertaken to make this policy of promoting exports to work their way out of debt, to make that really a feasible policy.

And I--I don't know when we began to wake--I would say--but certainly my own reaction was certainly by late ‘86, certainly early ‘87. I was very skeptical as to whether this Baker Plan, essentially what it was, was going to work. And I put forward—I put it forward first at a retreat of the senior staff of the operations complex (it must have been, come to think of it, was mid-‘86) and later at another retreat with the staff, senior staff of the Western Hemisphere Department of the *[International Monetary]* Fund--put forward the idea that we ought to start thinking very seriously about debt reduction.

Now, the reaction in the Bank was one of horror, and the reaction in the Fund was even more. In fact, I remember the meeting with the Fund when I said this. There was an absolute deadly hush; nobody said a word. And--but I think that was when, certainly in my case, it was when I began to think seriously that we had to find some ways to bring about a significant reduction in debt because there was no way--the Baker Plan just wasn't going to work. While in principle, in theory it was feasible, in practice you just could not get either the policy changes made fast enough (for political reasons, obviously), and even if you could get them made, they wouldn't produce their results fast enough.

KAPUR: I'm curious as to why you think that the Bank itself—like when you presented, that the staff of the Bank, there was sort of a stand-off reaction? How do you see your role in, your difference in thinking . . .

KNOX: Well, I wasn't all that different from other people. A lot of people, I think, in the Bank were coming round to that point of view then, particularly people in the Latin America region of the Bank who were struggling to help find ways to help countries to deal with this problem. No, I think it was more the reaction of, "Yes. Maybe he's right, but how the hell do we do this, you see? How do we get this idea across to our shareholders, principally, to the--and to our Board *[of Executive Directors]*? How do we convey this idea?" In the case of the Fund, I don't know. I think it was more there they hadn't got to that point in their thinking, and this was such a revolutionary idea for them that it was stunning, you see. In the case of the Bank, I don't think it was considered a revolutionary idea. I think a lot of people were saying, "Yes, this was what we've got to do, but how the hell do we do it in terms of getting acceptance that this is what has to be done." And after all, it--when you look back at the history of the place, it was . .

[Interruption]

KNOX: . . it wasn't until *[Nicholas F.]* Brady made his speech in--what was it? March . . .

KAPUR: ‘88.

KNOW: ‘88. That's right. I couldn't which year it was. It wasn't until Brady made his speech in March ‘88 that this idea became, in quotes, "respectable." And I think that is always one of the problems of an institution like this. Even if the people inside the institution may think this is the direction in which we've got to go, the institution still has to convince its member governments, and in particular those who hold the greater majority, the majority of the shares, that this is the direction in which we've got to go.

KAPUR: Essentially, you mean the U.S.?

KNOX: Well, largely, but not only the U.S.

KAPUR: What was Ernie *[Ernest]* Stern's reaction? Where did he stand in this? I mean, he was obviously looking at this even before you came to . . .

KNOX: Ernie's reaction essentially was that I was trying to move a bit too fast, and I think he was maybe right in that respect. But, you know, that--and again, it was the reaction, “You may be right intellectually, but how the hell do you get your point across and get this accepted by member governments?” And there wasn't any difficulty getting it accepted by, shall we say--member governments in Latin America, who were only too happy to think about it--the lenders on the Bank’s Board.

WEBB: It was a bit of the emperor's clothes, wasn't it?

KNOX: Oh, yeah.

WEBB: One of those things you just can't say.

KNOX: Exactly.

WEBB: People are realizing it, but . . .

KNOX: People are realizing it, but you—people are realizing it, but you can't really . .

WEBB: Tremendous inhibitions.

KNOX: . . you can't come out in the open and say, “Ah!” And, in fact, I never said this in public. The first time I said it in public was after I had left the Bank when I was asked by the InterAmerican Dialogue to write a little piece for them on a meeting they were having in late ‘87. And I wrote a short paper then in which I argued that the Baker Plan would not work for the reasons I’ve given, that, you know, you couldn’t--that the speed of reaction both politically and in terms of economic response, even if you could put the policy changes, that you just couldn't get the speed of reaction necessary to make the Baker Plan work and that the only thing to do was to think seriously about debt reduction. Now, I don't know. I was promised a copy of the papers that they produced, but I never got them, so I don't know what the hell they did with this thing!

And then, as you may know, I wrote a paper, a thing called “Latin American Debt: Facing Facts.”

WEBB: We haven't seen that. But now I remember that you mentioned that once.

KNOX: Well, I probably made a mistake. I wrote it for a group in Oxford and, as I discovered too late, they had no proper system of publication and in particular no system of distribution. So this thing received a certain amount of attention in the press when it was published in the spring of ‘90, but nobody could get hold of the damned thing!

WEBB: Well, it will be an interesting test to see if the Joint Library *[of the World Bank and Fund]* has it.

KNOX: Well, I sent--I didn't send copies to the library here, but I sent copies to quite a lot of people in the Bank. I sent copies to, you know, people I knew on the Board of the Bank, people like Eduardo Wiesner, who was then an Executive Director. I remember sending a copy to the--I think he's still here—Frank *Norris F.]* Potter was the Canadian ED *[Executive Director]*, and various other people, Pedro Malan, who was here.

WEBB: Uh-huh. We can try Potter and the EDs.

KNOX: But whether they have pulped them, I don't know. And there I argued very strongly that by that time, of course--well, I was writing it at the time the--sorry. Did I say ‘90? It was earlier than that, I think.

WEBB: You said ‘90.

KNOX: Yes, because I was writing it at the time that the Brady Plan, Brady made his speech.

KAPUR: At the Annual Meeting? That was “88.

KNOX: Yes, but it wasn't at the Annual Meetings. It was--it must have been later. Yes, it must have been. Perhaps it was ‘89 that I was focusing on; I've forgotten now. But I argued in that that I didn't think the Brady Plan went far enough, and I was particularly concerned about this idea that you would, countries would have to borrow substantially in order to buy the guarantees, you know, the zero coupon bonds and all the rest of it.

KAPUR: One hears this, and it is unclear how--there is a grain of truth in it somewhat--that the Bank moves slowly because, well, people say, well, you know, Clausen was at Bank of America and interested in the commercial banks but not completely uninformed.

KNOX: Yeah, but when the Brady Plan was announced, you know, Tom Clausen was one of the few commercial bankers who came out and said it was a good idea, that we damned well had to think about debt reduction. I think if you go back to the record, you'll find that that's correct, that Tom made a speech at the time in which he said, “Yes, we have to do something about debt reduction.” Now, it could well be, you know, that his thinking when he was president wasn't in line with this. He may have come round to this after he left the Bank and went back to the Bank of America, had to face up to the problems that he was wrestling with there.

But it is very difficult to get commercial bankers. I've had discussions, for example, with Jeremy Morse, chairman of Lloyds, and Jeremy's attitude was, you know, "Why the hell do you say these outrageous things?" And I've been trying, I tried on one occasion to persuade him that a bank like Lloyds would be better off accepting a significant debt reduction, and the paper they were left with would be a damned sight better quality than the load of rubbish they currently held on their books. But it's not easy to get that, that concept across to people.

And I tried arguing that briefly in this thing I wrote on Latin American debt, but it wasn't merely that the borrowing countries that would be better off if you could have a significant debt reduction, but the lenders would be better off because they would have paper of a much higher quality which really was worth something instead of a load of stuff which might have a, carry a price of 10 cents, 20 cents, or 30 cents on the dollar.

WEBB: Do you remember a study . .

KNOX: Could I just make a--you asked me a moment ago what Ernie had to say about my early intervention. One of the people I sent this thing on Latin American debt to was Ernie, and Ernie wrote me a very good letter about it. His point was, "Yes, you're making an excellent point. But how do we get our shareholders"--that same problem—"How do we get our shareholders to accept something even more radical than the Brady Plan is needed?"

WEBB: Well, isn't part of the answer the first thing you have to do is start telling them the facts?

KNOX: Yes. Well, that has, that has been, that has been one of my criticisms of the Bank. I've written a few times to my friends in the Bank about the *World Debt Tables*, for example, saying—I mean, I remember writing about the most recent issue--and saying, "Look, it's nice to see the Bank coming round more and more to a recognition that substantial debt reduction is necessary, but when are you going to produce a coherent program to show how it can be done? At least then the people would have a basis for discussion instead of this terribly cautious position," you know, that the "now that debt reduction is accepted, we accept it. But we're not going out, we're taking a lead." And I have felt that the Bank has been remiss, seriously remiss, in not coming out and saying, "Look, here is a program for discussion." Now, I agree. I see the difficulties. And, again, you've got that sort of thing past the Board of the Bank, which may not be easy.

WEBB: There was a study done--do you remember a study done by *[Frederick Z.]* Jaspersen?

KNOX: Yes. Very good study. But, again, it never saw the light of day because--I remember showing it to some people in the Fund who said, you know, their reaction was "For God's sake, suppress that. We can't say that sort of thing." And while it had a limited circulation within the Bank, it never got out of the Bank. At least, officially, it never got out of the Bank, because again, you know, there is still this problem, “How do we get our shareholders to accept this kind of thinking?”

WEBB: You know, in the middle of 1984, I was in the central bank, and I made a statement to a reporter to the effect that Peru, that I didn't see how Peru was going to be able to continue servicing its debt and continuing *[inaudible]* at the same time and also that we were not on target with, to meet the Fund targets for the recently approved Fund program. And the roof fell in on me!

KNOX: I'm sure it did!

WEBB: This was--and it was in Peru. It wasn't that most people there were, didn’t stand on their chairs to praise this guy who was saying, “Don’t pay the debt,” which wasn’t what I was saying. I was pointing to the numbers. The general reaction was, “How could anyone say such a thing and ruin our credit!” But much of the force of the reaction and all the abuse that I was, thrown at me was clearly orchestrated from abroad, principally from Citibank and the steering committee. And that was--I could see that was their job, and they were very good at it.

KNOX: But people in Peru went along with it?

WEBB: Absolutely.

KNOX: You know, one of the fascinating things to me has always been why Latin American governments have been, in quotes, “so good.”

WEBB: I have the same question.

KNOX: I’ve asked that of various people in Latin America, “Why the hell—why are you so cautious? Why are you being such perfect borrowers, you know, struggling to repay? Why the hell don't you come out and say, ‘Look, sorry, but we just can't make it.’”

WEBB: What do they tell you?

KNOX: Well, you know, I guess all the terrible things that would befall them if they didn't. You know, they would never get access to the international capital markets again. And I said, “Look at history. There are lots of examples of countries.”

WEBB: That's the argument, is it? It's more that . .

KNOX: Well, it's—it was part of that.

WEBB: It's not the argument that, “Well, we need to go along with this because we're trying to convince our politicians to do things,” which is another argument which I can see a little more sense in.

KNOX: No, it's not that so much.

WEBB: No.

KNOX: It's more, you know, the terrible things, all the things that will happen to us if we don't pay up.

WEBB: Would Malan see it that way?

KNOX: He might. But then, you see, I also think that one of the problems in Latin America is that on those occasions when countries have gone into arrears, they have always done so from a position of extreme weakness. They've done so when they have been right on their knees, and they damned well had to go into arrears. That's been the Brazilian experience. They have not done this when they were in a, you know, putting into place policies that would help them to go and then used a reduction in debt service as a means of reducing their external obligations so that they had more resources available for investment. They've never done it that way. It has always been done from a position of extreme weakness and they're ready—they weren't--the building up of arrears was not really a matter of policy; it was a matter of necessity. They were so strapped for cash that they just couldn't pay up.

WEBB: The guy who really blew his chance was Alan Garcia.

KNOX: Absolutely.

WEBB: Because he had two and a half billion in reserves.

KNOX: Yes, but look what he did.

WEBB: A year's exports.

KNOX: I remember a lunch I had with some bank people, bankers, in London, in which they were saying—when I was out then trying then to argue the case for debt reduction—"You can't say that because look what happens. Whenever there is debt reduction, the country just blows the money and makes an absolute mess of things, e.g., Peru." And I said, "You know, Alan--you bankers really ought to erect a statue to Alan Garcia . .

WEBB: That's right.

KNOX: . . because he has done you immense service because he has persuaded the world that reneging on debt doesn't pay."

WEBB: Exactly.

KNOX: Now, incidentally, there is tucked away--or it may have been suppressed, burnt, or done something--but Guy Pfeffermann, I remembered this morning--a study we did at the time on Peru at the time when Alan Garcia made his first statement about, you know, not paying in which we made a study of what would happen if Peru used the resources freed in this way for investment, strengthen the economy. And our conclusion was that Peru could not merely get away with it, but could do damned well.

WEBB: Is that right?

KNOX: Yes.

WEBB: Well, they had so much money.

KNOX: Absolutely.

WEBB: And then drew it on consumption stuff . . .

KNOX: If you’re a big debtor, you have a lot of money available. *[laughter]* That’s what it amounts to. And the conclusion of this study was that if the Peruvians played their cards properly, they could come out of this extremely well, and they could say to their creditors, “Go and stuff it! We don't need you.” But, of course, he didn't play his cards that way. He blew everything on maintaining the exchange rate at a ridiculous level, boosting domestic consumption. He did everything that was wrong. But it was not a necessary course. There was a clear alternative, probably more than one alternative course in Peru which would have made, which would have resulted in a very different situation. And I say there was a paper--this was a purely internal paper--which was done at the time which . . .

WEBB: Would Guy have been involved?

KNOX: I'm not sure, but I think—well, Guy was the chief economist for the Latin America region. He must have had a hand in it somewhere, and he may even have been the principal author. I just don't remember now.

WEBB: No, no, I can . . .

KNOW: But I asked at the time, you know, “What if?” [both speakinq at once] Now, whether you can still get your hands on it, I don't know whether it’s still--I'm told the Bank's files are in a most appalling state. You've discovered that?

KAPUR: It's amazing, you know. This is an institution that has been reinventing the wheel. I mean, all the *[inaudible]* you see in East Europe now, public works programs, poverty, you see the same work in the ‘70s, change the date, change the country and Xerox it. Everyone believes that they're doing something absolutely new. It's such a tragic waste of resources. I mean . . .

KNOX: You see, the Bank lost, unfortunately lost its institutional memory.

KAPUR: Well, it tried its best to [both speaking at once]

KNOX: Well, it tries its best to make sure it doesn't have much of one!

KAPUR: I mean, it has a staff of 70 whose only job is to move people's offices now. And so every time someone moves, obviously they discard. And there is just . . .

KNOX: Of course, the fact that there is a big building program at the moment must make life more difficult for people, but unfortunately this has always been true. And for many years it was one of my complaints in the Bank that, particularly as far as loan officers were concerned, they were moved far too rapidly. They'd hardly discovered where the damn country was before they were off somewhere else!

And I remember, this when I was projects director--this is an aside--when I was projects director in EMENA *[Europe, Middle East and North Africa Region]* going to Jordan with the loan officer. And I always made it the practice, whenever I went to a country, I didn't want to stay in the capital. I wanted to get out and see Bank projects wherever they were to the extent that my time permitted. And I was going off to some other part and asked him how long was it going to take, what were the roads like, how long was it going to take us to get there. And his answer was he didn't know. I said, "Well, why don't you know?" Well, in the end I discovered that the only thing he knew was the way from the hotel to the ministry of planning.

WEBB: Where was this?

KNOX: This was in Jordan.

WEBB: I mean what . . .

KNOX: It was the loan officer for Jordan.

KAPUR: It was the time when you were in EMENA.

KNOX: Yeah, I was at that time director of projects for EMENA. The loan officer was there, and I wanted to know about the country, and I was--not about the country in terms of statistics, but what the road conditions were like, you see, how long would it take to get someplace. He's never been in any of those places! He had never been outside Amman. In fact, as far as I could see, he had never been outside the ministry of planning in Amman--and the hotel. He knew how to get from the hotel to the ministry of planning and back again. And that was a very able chap. And it was partly, of course, it was partly the problem was that he had had such a brief acquaintance with the country. And not long after that that he moved on to being the loan officer somewhere else.

KAPUR: A sort of different story *[inaudible]* In the years that you were in the Bank you must have once in awhile sort of how the pattern of recruitment in the institution over time has changed the culture, the character of the institution. Do you think it has made a difference?

KNOX: You say patterns of recruitment. In what sense? Do you mean different geographical backgrounds?

KAPUR: Well, one is, of course, the clear thing that one sees again and again, how that . .

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

KAPUR: . . a sort of an internal bureaucracy with their own network. One hears this now, that too often--and of course an experience it's been more--and the patterns for staff advancement might have been more for the staff but less for the country. How do you sort of see that, in terms of institutional effectiveness?

KNOX: Let me try and answer it on two levels: Firstly, I think, is one question of--the Young Professional program produced not only a difference in age structure and experience structure, but it also produced a difference in geographical background. And I think there are a lot of people in the Bank who said, you know, this is important. The greater geographical spread is much better than, certainly than when I joined the Bank when the common remark was that this was a Bank run by the British for the benefit of the Dutch, because when you looked around the place was full of people from the U.K. and full of people from the Netherlands, ex-colonial civil servants, really. *[Laughter]*

But there was this deliberate effort to widen the geographical spread. I think that was good, but it had one serious drawback: almost all of these people we recruited came out of the same university background. They were almost all graduates of the main graduate schools in the United States or the U.K. or Western Europe, and while they may have come from Asia, Africa, Latin America, or wherever, their intellectual equipment with which they arrived was the intellectual equipment they had acquired in this very comparatively small number of graduate schools. So we really didn't get a great deal of diversification.

Now, the effect of the Young Professional program, I think, was valuable in the sense that of course it brought a lot of new ideas into the Bank. Don't forget that, particularly as you get older, you find, of course, that you were trained or, for example, I was trained in the pre-computer age. So I had to learn how to understand these blasted machines when I was in my fifties, and that makes a difference; whereas, a chap coming in through the Young Professional program brings with him the latest techniques, the latest skills, the latest ideas, and that's very valuable. It has a disadvantage, on the other hand, that since the cutoff age for the Young Professional program--I don't know whether it still is; it used to be 30--it means they don't bring much practical experience with them, perhaps they don't bring any, and the sort of understanding, therefore, of what really works is not there. And this may, you know--going back to what I was saying earlier--may have had something to do with the fact that while we've produced all these brilliant papers in ‘85 or thereabouts on how this debt problem could be solved, they all turned out to be rather impractical in the sense we made these grossly over-optimistic assumptions about reactions to these. And I think that's a problem.

In addition to that, of course, the Young Professionals, most of them, had an economics background. And I will say this--I'm an economist, and so I can say this without being accused of criticizing other disciplines--I think one of the problems of the Bank is that it has come over the years more and more to be dominated by economists. As an economist, I believe economists have their uses, but you've also got to sit on them from time to time. There’s been--the Bank has become increasingly a place where there’s nobody to sit on the economists; they sit on everybody else. And I think again that is not just the Young Professional program, but the Young Professional program has contributed to that because that's been the background of the great majority of the people coming into it.

WEBB: But it wasn't really economists who started this. Were they programmed to look for other economists? What was this--because at that time the Bank was still more balanced?

KNOX: Well, let me go back into something. Perhaps I might go back to something I might have mentioned when you asked me about my own career because I think that in itself may throw some light on your question. You have asked why was it that I was moved from being division chief for Peru, Bolivia, and Argentina in the end of ‘66 to becoming the assistant director of the projects department in charge of public utilities. And the answer was that at that time there was not a single economist in that part of the projects department. Electric power lending, water supply lending, telecommunications lending, which were the responsibilities of that part of the projects department, was in the hands exclusively of engineers and financial analysts. And I was put into that job with the explicit instructions from Siem Aldewereld to introduce economic thinking into that part of the Bank. And in fact when the department was so structured that I was put in charge of it, I had a deputy who was an excellent manager. I think it was Aldewereld's idea that I would sit there and think great thoughts about how do you get economic thinking into this sort of thing, while Walter Armstrong ran the department. And one of my jobs was really to recruit economists and get them into there.

But it was so that--there was a period, you see, when the economists were almost marginal, certainly to the work of the projects. In fact, in this part of the projects department, they were marginal. It was rather different in transportation where there was already quite a strong group of economists and there was a man like Warren Baum who was in charge of that. And Warren, again like me, is an economist.

But from there I think the thing mushroomed to the point where economists do everything, you see. And I believe certainly one of the mistakes of “87 was to put far too much emphasis on things like structural adjustment lending, on economists to handle that, and to ignore the fact that the Bank was going to need a strong team of technical people.

And an awful lot of technical people were let go at the time. Now the Bank has been paying a price, and it's going to pay a heavier price in the coming years for that. I don't know whether that answers your question, but I think [both speaking at once]

WEBB: Yes, it helps to understand a lot. The Bank was trying to compensate. There was a perceived . .

KNOX: There was certainly, you know, in the mid-‘60s a perceived, a perception in the projects side of the Bank--this was not true of the country side, you know; the Western Hemisphere Department and so on were full of economists dealing with countries. But even so, as you look at the reports of the day, the work they were doing was essentially short term. But there was certainly a perception in the projects department that there was a need to strengthen economic analysis in the handling of projects. And it’s developed from there to the point, I think, where it’s probably gone too far the other way. I mean, the Bank has gotten--not quite, but largely--to the state of putting a tremendous emphasis on economics and not enough on the technical side.

WEBB: A bit like the sorcerer's apprentice.

KNOX: Absolutely, yes. Absolutely.

KAPUR: I was wondering if we could move on from the—we really don't have that much on the EMENA region. For some reason we haven't been . .

WEBB: We haven't talked to many people.

KAPUR: . . on that and I was wondering if you could reflect on that a little bit.

KNOX: What can I tell you about that?

KAPUR: Well, one--maybe that started, of course a bit later—is I was surprised to find that Morocco is the largest borrower from EMENA region in the Bank, but also the peculiar dominance that the Bank has found in, say, Romania and Yugoslavia, these centrally-planned economies, Algeria, been quite different from the rest of the world, until, of course, Pakistan, quite recently, Egypt, Turkey, where the influence of the U.S. seems to have been much more apparent. And I was wondering if you do see that place or the region somewhat differently as compared to your LAC and Africa days, or not really?

KNOX: That’s difficult. It is different in some ways, but the EMENA region, of course, was different in one important respect. It was such a mixed bag of countries. Also, don't forget that at the time I was the project director we were still lending to Spain. We had a big program in Romania. Romania was a totally different economy. And we had the technical assistance program in Saudi Arabia and Kuwait, a reimbursable technical assistance program. They had paid for it, and then there was a big lending program in places like Egypt and Morocco and so on. And it was--there is much greater diversity between those countries than there is between the African countries or even between the Latin American countries. There's a bit more commonality of problems in Africa and even in Latin America than there was between the problems there.

I know in Romania I think we had at the time a tremendous struggle to understand that country and even to get adequate information about it. And I think there was a strong tendency to, almost to turn a blind eye to Romanian deficiencies in order to try to establish a working relationship with them. You see, the Bank was--I think if the Bank had been strict, it would have said to the Romanians, “To hell with you. You're not supplying us with the information we need, and so we're not going to lend to you.” But instead of that, because it was, after all--other than, apart from Yugoslavia, which is a very different sort of place--it was the first of the old COMECON countries to come into the Bank. And the Bank was very anxious at the time to try to show that it could do something in Romania. I think as a result we probably leaned over backwards to be . .

KAPUR: To accommodate them?

KNOX: To accommodate them.

KAPUR: Was that, do you think, did that come essentially from McNamara?

KNOX: I don't know. I suppose it did.

KAPUR: Or from Burke Knapp?

KNOX: Well, it—I think it was McNamara. *[Shahid Javed]* Burki was also the regional vice president at the time. Munir Benjenk—I mean, Munir I know was very anxious to find some way to work with the Romanians and to be accommodating. And so you had a rather odd situation there, I think where we simply did not always apply as strict criteria as we would have applied elsewhere, particularly on the economic side. I think you'll find that the economic reports on Romania are extraordinarily tolerant. You know, they even argued, if my memory serves me correctly, that there was no inflation in Romania--which of course was a piece of nonsense! I mean, there was no inflation in the sense that the official price index never moved or barely moved from one year to the next, but you only had to look at the food lines in Bucharest and elsewhere to recognize that there were extreme shortages. And what is inflation but shortage? I mean, you mask it and suppress it in various ways, but if there's a gap between demand and supply, that's what inflation is all about. And I know the Bank reports which would come out in *[inaudible]* and say there was no inflation in Romania. That was nonsense. So there was that side of things.

WEBB: You see this--I'm sorry; I'm just fascinated by that--you see this as a very collective attitude, rather than something that was driven by McNamara?

KNOX: No, I think it was in many respects a collective attitude. I mean, I know from my part as the projects director it seemed to me at the time to be the correct thing to do, that if we were going to find a way to work with this kind of a country, we had to start off in this way, that perhaps later on, once we had shown them that we had something useful to offer, we could tighten up on our criteria, but initially this had to be done. And I know Martijn Paijmans, who was then the program, the country director for Romania, had exactly that same view. So I don't think it was something that, you know--certainly I would say in my case it wasn't something that I was thinking, “To hell with--I don't want to do this, but I'm damned well told I have to do it.” It was something I accepted. It seemed the right way to go about lending to a country like this.

WEBB: It's a psychological thing, isn’t it?

KNOX: It is. How do you really get your foot in this door so that you can begin to do something useful? And I remember I had discussions with Martijn about what time might we be able to tighten up.

WEBB: It's the prodigal son.

KNOX: Exactly.

Now, Egypt again was, I would say, a not--you know, the Bank in Egypt, I remember, I think we tried in many respects quite hard to persuade the Egyptians to change policies, but the Bank was very much a minority lender. I mean, the big money came from the U.S.

KAPUR: Right.

KNOX: And the U.S. money was politically motivated. They were interested in—they were not really—they were interested in keeping Egypt afloat; they were not interested in changing the awful economic situation in Egypt. I also would have to say that I know we had discussions of, “Where do you begin? Even if you could persuade the Egyptian government to change, where the hell would you begin in that situation?” It was a terribly complex situation, and I’m not sure that we ever understood quite where to begin. But certainly our voice--I know we tried in Egypt to persuade the Egyptians to change policies, but I don't think we were ever seriously listened to because we were not--we were far from being the big player there, so you get a very different sort of situation.

WEBB: When you were in [both speaking at once]

KNOX: Morocco. I'm sorry. I haven't got any thoughts about Morocco. For some reason the years I spent as project director I don't seem to have had a great deal to do with Morocco. But I know I had a lot to do with Egypt.

I had quite a lot to do also with Turkey where we were trying again very hard to persuade the Turks to change their policies.

KAPUR: And that also was not very—the Turks also were very slow.

KNOX: Very, very slow. It's not easy to persuade the Turks to move, you know, if they don’t want to move, I can tell you that much. They're tough customers.

WEBB: There was beginning to be a lot of oil money sloshing around in those countries.

KNOX: They were beginning to change towards the end of my period in EMENA, but very, very slowly. Of course, later on they changed in some ways quite substantially. But not easy.

KAPUR: And then West Africa after that.

KNOX: Yes, that's when I became vice president for West Africa.

KAPUR: That included Francophone Africa?

KNOX: Yes. It was all of the countries from Mauritania and Senegal on the Atlantic right through to Chad, Central African Republic, Congo Brazzaville in the center.

KAPUR: So that included Zaire also?

KNOX: No. Not Zaire. I must confess that I have stood on the banks of the Congo in Brazzaville and looked across and said, “Thank God I don’t have to deal with that!”

WEBB: Right. It was attached to East Africa?

KNOX: It was attached to East Africa. Yeah, the East Africa region stretched from the Sudan right down to Zimbabwe, and it came right across to Zaire. And later on, of course, it included Angola and Mozambique. At the time I'm talking about Angola and Mozambique were not members of the Bank, nor was Namibia.

WEBB: In those years in that region was there one of the countries that was seen as role model, the bright star?

KNOX: Yes, the bright star at the time was the Cote d'Ivoire, though already getting into serious trouble. And that's where we made some of the first of the structural adjustment loans in Africa, to try to help them. In hindsight I would say not very successful, partly for external factors. The price of cocoa and things of that sort went down faster than we could help them to get themselves up. But in addition to that, you know, in those earlier structural adjustment loans one learned gradually that we hadn't got the answers right, plus the fact it was difficult sometimes to persuade them to carry through the policies.

Likewise, the early structural adjustment loans were in Senegal. Some of those ran into quite serious problems, particularly on the agricultural side, agricultural pricing, where the Senegalese for long really did not go along with the, what we were trying to tell them, particularly on agricultural pricing. You also have the problem in the Francophone countries that you don't have the same ease of adjustment on exchange rates because, as you know, they're members of the Franc Zone, and one had to devise sort of systems of compensating tariffs and subsidies to try to come up with something that was broadly equivalent to a devaluation.

Then there was another country, of course, where--I haven't followed it in detail, but certainly at the time we thought we were getting somewhere, and that was Ghana. Initially, when I became vice president in ‘80, we were having a lot of discussions with the Ghanaians. We didn't get anywhere. There was then a coup, and Jerry Rawlings took, seized power, and for the first year, I think it was, after he’d seized power we had virtually no meeting of the minds at all. That was the time when he had the idea he could solve the problems of the country and eliminate corruption by bulldozing marketplaces, you know if you eliminated the markets--physically eliminated them--and all the people who worked there, you would deal with the problems of the country. It must have been about ‘82, I suppose, when they began to change, and that's when we had some very interesting discussions with the finance minister, Kwesi Botchway. Out of that came not a structural adjustment loan--we didn't call it that because we didn't think we could develop or the Ghanaians could carry out at the time the kind of policy changes that had become associated with structural adjustment loans. We called it, I think, a “main port reconstruction loan.” It was a very simple idea of simply providing the Ghanaians with some money to begin to buy spare parts for trucks, tires for trucks, various things of that sort, to get some of the immobilized capital equipment of the country into use again.

KAPUR: A bit like the old program loans.

KNOX: It was, except we divorced it. It was directed, of course, to specific objectives in the sense that we--I know it was to try to get the trucking fleet, or part of it, back onto the road and various other things at the same time. Also, there was an element there for just repairing some of the roads. I can tell you that if you had been to Ghana at the time that some of the potholes in the, particular in the cocoa growing areas around Kumasi, you didn't avoid the potholes; you just tried to decide which was the least deep of the potholes you would go through. They were terrible! The degradation of the physical infrastructure of the country was appalling with the exception of the Volta Dam, which is the hydroelectric dam on the Volta River, which had been very well maintained. But everything else was in terrible state. This import loan was really to provide bits and pieces to get some of the infrastructure back into use. And at the same time the Ghanaians on their side carried out a series of quite important changes. And I remember when I left West Africa I was very hopeful about Ghana, that Ghana would, having gone downhill in the most appalling way for twenty years, would begin to go uphill again. I think the jury is still debating whether they're going to make it or not.

KAPUR: Did you have any dealings with Nigeria?

KNOX: Oh, yes, very difficult dealings, too, because . . .

KAPUR: With the oil money?

KNOX: That was their big problem because they allowed, as so many other countries have done, they allowed the oil money to destroy them because Nigeria at one time had a flourishing agriculture. They really pretty well were self-sufficient as far as food stuffs were concerned. They had a certain amount of agricultural exports. They had the beginnings of a useful manufacturing industry; it was in the very early stages, but at least it looked promising. And then the oil began to flow, and the result was, on the exchange rate was so disastrous. I mean, the naira became so strong that they destroyed their agriculture. I mean, it was cheaper to import. And they destroyed their manufacturing.

And we tried for many years without any success at all to persuade the Nigerians that they simply had to do something about exchange rates in order to prevent this complete destruction of so much of the country's non-oil productive capacity. But they could not be persuaded to budge, decided things were getting *[inaudible]* towards the end of my stay there when the situation had become so bad that they were beginning to recognize they had to do something.

WEBB: They would have had to sterilize . .

KNOX: Yes, exactly.

WEBB: . . a huge chunk of . . .

KNOX: They were having to sterilize a big chunk of the oil money, you see, to—but they weren't prepared to do that. Plus the fact, of course, one has also got to recognize that the administration was weak. And when you talk about sterilizing, you know, you needed a good administrative structure, a good central banking structure, to be able to do it effectively. And they didn't--they were probably better off than many African countries in that respect but still not all that strong. But they were--we couldn't even get them to the point--at least not until I suppose it must have been towards the end of my period in West Africa that--it was only then that the situation had become so bad that they were beginning to. I've forgotten when they first devalued the naira. It must have been sometime about—sometime in '84, I think it was. I've forgotten now.

KAPUR: And again a few months ago?

KNOX: Oh, yes. They've done it since then, of course. And we also tried developing—we couldn't develop a--we didn't think we had a proper basis for a full-scale structural adjustment loan, but we tried something which was called a "fertilizer import loan," which was developed or designed in such a way that it was quick disbursing, which had the dual objective of (a) pumping some money into the country and also trying to bring about a reform of the old fertilizer subsidy and distribution system. And it again, it took some time to get this accepted because, of course, once you start attacking this sort of thing, you're attacking vested interests of all sorts, shapes, and sizes in the country. Well, it was quite apparent, for example, that some of the principal beneficiaries of the heavy subsidies on fertilizer in Nigeria were not anybody in Nigeria; it was the farmers in Niger to the north because it all slipped across the frontier and was sold at a good price in

Niger. So somebody collected a handsome rent somewhere along the route, and it certainly wasn't the government--at least, not officially. I used to try to get them to--that was the start of a “species,” shall we say, of structural adjustment in Nigeria. Again, you will find that on the books somewhere.

KAPUR: When we’ve read a lot of the Bank's projects in Africa in the ‘70s, that the Rwanda mines, sort of McNamara's obsessions to lend. What do you make of that?

KNOX: Well, I didn't feel this in West Africa, but I've often wondered about a place like Tanzania because the Bank poured extraordinary amounts of money into Tanzania, and it's damned difficult to see what the hell came out of all that. It seems to be it’s been a whole load of disasters. And that again goes back to Julius Nyerere, who was an extremely personable statesman. You asked me Alain Garcia was a charmer; Julius Nyerere was a charmer, and I think among other people he charmed McNamara. Delightful person, but actually his feet were so far off the ground it was extraordinary. But I—as I said, since I was on the other side of the continent, I saw this only from a distance.

On the West Africa side, I know certainly in Ghana, I, for the first couple of years I was regional vice president I refused to lend to Ghana because, I said, “Your policies are so appalling. I mean, any money we put in is just going to vanish.” And I was certainly under no pressure from McNamara, perhaps because he just wasn't in interested in Ghana or didn't like the look of Jerry Rawlings. But I--so we then started to lend in a big way when, as I say, the Ghanaians, particularly with Kwesi Botchway as finance minister, began to try their restructuring. We then said, “Right. We will come in and support you.”

It was also an occasion, incidentally, where we had a lot of trouble with the Board even though we weren't--import, import loan because we made that loan before the Fund had agreed a program with Ghana, and the Board objected. You had to do things the right way round. You had to have the Fund program first, and then the Bank would come in. And I argued at the Board that, you know, we had good reason to believe--and I think we did--that the Fund was going to come in and make a loan, and in any case, the situation in Ghana was so desperate that unless we came in and helped them quickly, this new attempt by the Ghanaians to restructure the economy was going to collapse, that we had to help them as quickly as we could. And in the end the Board accepted it, but the first reaction was, “No, no, you shouldn't be doing it ahead of the Fund!”

WEBB: And they accepted it?

KNOX: They accepted it. Well, I think again they may have accepted it again because we didn't call it a structural adjustment loan. If we’d called it a structural adjustment loan or tried to dress it up as a structural adjustment loan, I'm pretty damned sure we would not have got it through because then we would have been challenging head on the idea of structural adjustment: Fund first, Bank next.

KAPUR: And that's ‘81-‘82?

KNOX: That must have been ‘82. Please don't hold me to the dates. I mean, I speak from memory, but it would be about ‘82.

WEBB: We'll check on that.

KNOX: Yes, you can check on the dates, but it was called an “import reconstruction loan” or some such title.

WEBB: We've just been reading--this second volume we were talking about--we will have one paper on the relations between Fund and Bank, and the draft--we've just been looking at the draft being written by Jacques Polak, so we have that in our minds. He doesn't get very intimate, though.

KNOX: I never had any dealings with him. I know who he is, of course, but I never had any--I worked with the area director, Justin--the African man at time—Justin somebody, came from Zambia. I can’t think of his surname.

WEBB: An African in the Fund?

KNOW: He was there. He was the head of the Africa department. Very nice man but I always thought a bit overwhelmed by the fact that he had to deal with all of Africa. It's a hell of a big continent: 49 countries in Sub-Saharan Africa and quite a . . .

WEBB: This fertilizer loan, for instance, for Nigeria was also a quasi adjustment loan.

KNOX: Yes, it was. That was a—that wasn’t—I mean, at that time--again I think I'm right in saying that the Fund was involved about the same time. Perhaps they hadn’t been, but there we just didn't think we could develop a full scale structural adjustment loan. We just didn't have the bases. We didn’t have a sufficient degree of understanding with the Nigerians on the policy changes that would be required, so this was an attempt to give them some quick help, to support the beginnings of change in Nigeria without getting into the whole scale and all the complexities of structural adjustment. I think that's one of the problems with structural adjustment loans. They’re just too bloody complicated!

WEBB: A bit of the problem that integrated rural development had, kind of.

KNOX: Yes. This was an attempt to tackle what seemed to be a critical problem in the agricultural area in Nigeria because one of the problems, you see--while I've talked about it in terms of changing subsidies and pricing, one of the big problems, as so often with a structure of this kind, was that the distribution system was hopelessly inefficient. I mean, subsidy was available nominally—fertilizer, sorry, was available nominally at a very low price in Nigeria, but in practice it wasn't available because the distribution system was so hopeless. And it was an attempt to distribute entirely through a public, a separate--I don't know whether it was a separate public corporation—but it was, the state was handling the whole thing. What we wanted to do was to encourage them to get distribution back into the hands of a network of private traders who were much more, who were dispersed throughout the country, and also to reduce, as you can well appreciate, reduce the tremendous fiscal burden imposed by this substantial subsidy. And we argued that, to the Nigerians, that they would do better to make sure the subsidy was available rather than that it was cheap but not available.

WEBB: And when you were arguing with the Nigerians on the naira, do you remember, were you, was this done in concert with the Fund?

KNOX: Yes. Yes, it took . . .

WEBB: Did you see eye to eye on that?

KNOX: Well, we saw eye to eye with the Fund. Why I hesitated was that it was almost impossible to get the Nigerians to talk with the Fund. So we were talking to the Fund, and we were seeing very much eye to eye with them on the need for change in the way the exchange regime was being managed, but the Nigerians for a long time were saying, “To hell with this. We're not going to deal with the Fund.”

KAPUR: It’s a bit like Colombia.

KNOX: Yes! Well, I mean, without justification. I mean, the Colombians had some justification. They had a row with the Fund in the early ‘60s when *[Carlos]* Lleras was the president, I think.

WEBB: Yes, Lleras Restrepo.

KINOX: That's right. When Lleras Restrepo was president; I think it was then. And then for years afterwards the Colombians said, “We're not going to have anything to do with the Fund,” you see, or, “We're not going to borrow from the Fund.” But the Colombians had some justification because by and large they were managing their economy pretty effectively during this entire period, you see, whereas the Nigerians were not managing their economy, but they were--I mean, the Fund was a no-no as far as they were concerned. They gradually recognized that they just couldn't get along without the Fund.

WEBB: The Colombians used the fuss with the Fund to mask the beginnings of many devaluations.

KNOX: Yes.

WEBB: And they actually carried out . .

KNOX: Oh, yes. They did essentially what the Fund would have told them to do, I think, without having the Fund. But then you may know there was this problem that they ran into when the Roberto Junguito was finance minister. This would be, what, late ‘84? Yes, it must have been late ‘84 or early ‘85, when the Colombians wanted to--well, they didn't want to restructure their debt so much as they wanted access to additional funds. They were applying to the banks for what later became called the “jumbo loan,” called “the jumbo loan,” and the banks were saying to them, “You know, we can't do anything unless you have an agreement with the Fund.” And Roberto Junguito and I—I think, if I remember correctly, it must have been at the annual meeting in ’84; it would be the first annual meeting I attended as vice president in the Latin America region--we discussed this issue, and he said, “Could not the Bank come in and help us with some quick-disbursing money and help us to satisfy the commercial banks that we were following sensible policies and therefore it would be prudent for them to lend us some more money?” And I said we would certainly try to do this, though I know I also told him that I knew I was going to have trouble getting it accepted that we do this sort of thing without a Fund program.

And I also--I then had a lot of discussions with the banks (as I think back, I think it was Chemical Bank was the lead bank, I think it was, for Colombia) trying to persuade them that if we went ahead (it wasn't a structural adjustment program; I've forgotten the exact nature, but it was on trade policy reform or something of that sort, it was called--it was more a sectoral approach) that if we went ahead with that and, you know, sort of reviewed the Colombian program generally and said whether we thought it was sound or not, would the banks find that, would the banks accept that as an adequate basis for new lending to Colombia. And they said no, they wouldn’t; they didn't trust the Bank. They wanted a seal of approval from the Monetary Fund.

And I then had a lot of discussion. Eduardo Wiesner by that time was the Fund's director for Latin America, for the Western Hemisphere region, so Eduardo very correctly stayed out of it, and I had discussions with *[Sterie T.]* Ted Beza in the Fund. Is he now the director?

WEBB: Yes.

KNOX: He was a difficult man. Trying to persuade Ted that, you know . .

WEBB: An *[inaudible]*

KNOX: Worse. Trying to persuade Ted would it not be possible for the Fund to review the Colombian program and say to the banks whether they thought it was a good one or not. And I said, “I have no doubt that you will say that it's a good one because it is to my way of thinking, essential,” without going through the whole rigmarole of having to make a stand-by agreement. And, as you may remember, in the end, with a great deal of reluctance, the Fund did come to a special agreement on, arrangement on Colombia. So then, I suppose, Ted proved to be right because when they finally got it through the Fund's board, the Fund's board said, “No, never again do you do this sort of thing. We say that a program is sound only if our money is on the table as well.”

I’ve forgotten now the exact mechanics that were gone through, but there was an arrangement, but it was not a stand-by--at least nothing on which the Colombians drew any money--so that honor was sort of satisfied all round. The Colombians hadn't taken any of the Fund's money, the banks got a seal of approval from the Fund, and the World Bank provided some cash. It worked out that way. But it was a very complicated set of negotiations.

WEBB: I'm glad you reminded me of this. I was aware of it at the time.

KNOX: That was when--I said earlier that even before Baker made his speech on the Baker Plan, we had begun to move in the direction of trying to see whether we couldn't help countries to strengthen their balance of payments so that they could tackle the problems of debt service, and this Colombian loan I think was probably, may have been the first of those attempts because again it wasn't a full-scale structural adjustment loan we put in place. It was more of a sectoral nature, but it was aimed to try to expand, I think, both agricultural and industrial exports.

Again, I'd have to go back to the record because I know that we had two or three loans of the same type, and they each one had a different emphasis, but they followed fairly closely, one after the other at that period. But that was the idea behind them, was could we not help to strengthen balance of payments so that the country had the external resources to face up to its external debt service obligation. Now, in the case of Colombia that was easier because Colombia did not have the weight of external debt that many other countries had, and moreover Colombia had an external debt with a much more favorable profile in the sense that there was a much larger proportion of it that was long term rather than the sort of five-year debt which was so heavy in the profiles in other countries. So it was much easier to do it in the case of Colombia, and the fact that it seemed to work there may have made us too optimistic *[inaudible]* I don't know.

WEBB: Were there any other of these quote, unquote, "jumbo loans"?

KNOX: The "jumbo loan" was by the commercial banks to Colombia, not by us.

WEBB: I see. So Junguito wasn't asking for Bank money.

KNOX: He was asking for Bank money, but what he was mainly after was money from the commercial banks.

WEBB: Yeah, yeah.

KNOX: And his problem was to persuade the commercial banks, who by that time, you know, had pulled down the shutters and were saying, "No, no, no. Never again do we ever lend a penny to Latin America." And I remember this was when we got into the old arguments that the problem with the Colombians was that they had the wrong address.

[End Tape 1, Side B]
[Begin Tape 2, Side A]

KNOX: . . I think it was a loan--I think it was a billion dollars--made by a consortium of banks to Colombia, and I suppose it must have been signed and sealed in the early part of ‘85 because the discussions I had with Roberto Junguito were, they started at the annual meeting in ‘84.

WEBB: Sure.

The Bank has been remarkably good about respecting this IMF priority. It's an interesting case where you went so far as to feel out the possibility of an alternative.

KNOX: Well, as I say, I tried, we tried to persuade the Fund that they could send the mission. The idea was that they would send the mission to Colombia, carry out the sort of review they would have carried out as a part, had they been heading for a standby, but not make a stand-by, but they would simply issue a report saying what they thought about the Colombian program and make that available to the commercial banks. But it--they did something like that—I’m sorry; I've forgotten the precise details of what they did. They went some way in that direction but ran into a tremendous amount of--I know that Ted Beza ran into a tremendous amount of flack in the Board, the Fund board.

WEBB: Do you remember who you talked to in Chemical?

KNOX: I don't remember now. I’m sorry.

WEBB: It would have been the steering group.

KNOX: There was a steering group, yeah.

WEBB: It's interesting, their reaction.

KNOX: But they would not—they--I put to them the idea that we would prepare a report on Colombia and we would make a loan, quick-disbursing loan, sectoral type, and we would make the findings of our report available to them, but that was not adequate. They were absolutely dead-set that they had to have the word of approval from the Fund.

WEBB: And this came right out of their own hearts?

KNOX: I think so.

WEBB: You think so. It wasn’t--they didn't consult. There was a lot of consultation going on all the time. Rose *[phonetic]* always used to be on the phone every day with people from the Treasury, the Fund.

KNOX: Well, they may have consulted; I don’t know. But they certainly were not prepared to accept a seal of approval from the World Bank. It had to be from the Fund. And then the problem was how to get something that would--from the Fund that would satisfy them without saying to the Colombians, “You damned well have to get a stand-by and go through the whole formal process of getting a stand-by from the Fund." Which would have been very difficult to justify because Colombia at the time did not have a short-term problem. I mean, they were laying the groundwork for handling debt service, which was going to be bothering them in a couple of years' time. There wasn't the kind of balance of payments disequilibrium crisis that is the normal basis of a Fund stand-by. Plus the fact, of course, having, not having had anything to do with the Fund since the Lleras Restrepo told the Fund to go to hell.

WEBB: You had to pay a little penalty for all that.

KNOX: They didn't want to go back on that, that tradition.

KAPUR: Did you have any dealings with the Treasury? Were they . .

KNOX: Directly? No.

KAPUR: So . . .

KNOX: No, any dealings between the Treasury and the Bank were handled at the level of the president and Ernie Stern, who was then the senior vice president for operations. Well, the only one I say I know of—I mean, I've been to lunches. They were usually in the Fund at which Treasury people were there, like David Mulford and Jim *James W.]* Conrow.

KAPUR: Right.

KNOX: They were, you know, you'd be—all the ones that I can think of were always hosted by Jacques de Larosiere and people like that. Ernie was usually there. I don't think the president of the Bank was ever there; I don't remember one. A few other people like me would be there from the Fund, from the Bank.

WEBB: And you discussed specific countries?

KNOX: Quite often. But I never had any direct, or I never had a face-on-face or a one-on-one with Mulford or Conrow or anybody else in Treasury.

I had discussions on the Colombia thing. I may say that--Tom Clausen by the time was the president of the Bank, and Tom and I went to see *[Paul A. Jr.]* Volcker to try to get his support for this idea of getting—really to ask him whether he would bring pressure to bear on the Fund to give a seal of approval without going through the full rigmarole of negotiating a stand-by. We had a breakfast meeting one day with Volcker.

KAPUR: And what was his reaction?

KNOX: Cautious, but then he was, he was sympathetic. But I don't remember him saying, “Yeah, that's a great idea; I'll do it right away.” But on the other hand, he didn't say, “Get the hell out of the picture!”

WEBB: Basically noncommittal.

KNOX: Yeah, but, well, he was a bit more than noncommittal. He was, you know, “The Colombians have a case, and I'll think about it,” you know, sort of thing. But it was a noncommittal in a somewhat positive kind of a way.

KAPUR: During all these years of the debt crisis involving the U.S., the Treasury, the Fed, much rarely hear about anything the Japanese or the Germans--it’s very, you know, even at the level of Clausen, sort of almost conspicuous by their absence.

KNOX: Yes, I certainly cannot recollect any discussions with the Germans. Well, that's not quite correct. I myself had some discussions with people in Bonn when I was dealing with West Africa, and their attitude at the time was, “All this structural adjustment stuff is a load of nonsense, and you, World Bank, ought to stick to the traditional projects. You shouldn't be getting messing about with this sort of thing.” And this was at the level of, I would say, fairly senior officials in the ministry of finance, whatever the Germans call the aid ministry in Bonn, whatever it is.

KAUR: G-T-Z.

KNOX: No, G-T-Z is the technical assistance group, which is in Frankfurt or near Frankfurt.

But they were, I would say, very traditionalists in their approach to this sort of thing and, you know, didn't think the Bank ought to be messing with this sort of stuff at all. Now, I don't recollect if my visits to Germany when I was vice president for, in the Latin America region I—yeah, my discussions were entirely with the banks. I don't recollect any meetings I had in Bonn. I did meet with people in the Bundesbank, which was in Frankfurt, and the Bundesbank by that time was certainly very supportive of the idea that the Bank ought to be doing this, in fact more than in—they wanted to try and help with the debt crisis. They were very much behind--this was post-Baker-Plan, post-Baker speech--so they were very much in favor of that sort of thing.

I had a visit—I had a very interesting discussion with the then vice minister of finance in Tokyo. What the hell was the man's name? It doesn't matter.

KAPUR: *[Toyoo]* Gyoten?

KNOX: No, no, no, Gyoten was one step lower down at the time. It was Gyoten's boss. Extraordinary chap, most unlike what I expected of a senior official in Japanese finance. He had shoulder-length hair, and with the sort of short back and sides that you normally have in Tokyo, he was a little surprising. And it was also a very startling meeting because he laid into me in no uncertain terms that the World Bank was not making any quick disbursing loans in Latin America. This would be in--let me think. It must have been in the spring of '86.

And I said, "Look, I expect in this financial year something like one-third of our lending in Latin America is going to be in quick-disbursing form, not very much in structural adjustment," because my argument was that when you're dealing with Brazil, for example, a structural adjustment loan has to be so huge and so complex that it's difficult to, intellectually even, to think it through, but that there would be a lot, however, of interrelated sectoral adjustment loans and that they would add up to, in total, in Latin America something like a third of our total lending for that year--not at the expense of project lending because our project lending wasn't going down. This would be net expansion. In fact our lending in '86 went up very considerably for Latin America.

He said, "I don't believe you. My officials tell me that you're not doing anything."

I said, "Well, I'm sorry. Your officials are misinformed."

He said, "How dare you say that my officials are misinformed!"

So I said, "Will you wait, and will you read the Bank's annual report which will give the end-of-year figures?"

Well, I never heard any more about it. I mean--but the point I would like to make was that he was hopelessly misinformed about what the Bank was doing. Now, how that misinformation arose, I do not know. My efforts to persuade him that the situation was radically different from what he understood, he wouldn't accept. He just wouldn't. He told me quite bluntly, "I do not believe you."

WEBB: I find it interesting also that they would, the Japanese at that time were expressing such a strong opinion on Bank policy.

KNOX: Well, his opinion was very strong. Now, the ED here, who was *[Kenji]* Yamaguchi, said very little, but I always felt sorry for Yamaguchi. Yamaguchi's English was very bad.

WEBB: It's their crucifix.

KNOX: Yeah, and I don't think the poor man ever understood what the hell was going on. In addition to that, he had some particular bees in his own bonnet. I've forgotten exactly what the bees were, but he was not the least bit interested in this sort of stuff. And I don't know whether it was Yamaguchi who was feeding back this nonsense to his boss in Tokyo or not. I wish I could think of the man's name.

KAPUR: Not *[inaudible]*?

KNOX: No. He was the immediate—Gyoten--then when he left, Gyoten took his place. I remember meeting Gyoten also at the same time. He had something of the same idea but not as strongly. He was more prepared to listen to what I was telling him. But this other chap, as I've said, dismissed me just out of hand. He really laid into me in no uncertain way about, you know, the Bank should be doing far more, it was doing nothing, et cetera, et cetera, et cetera. But certainly one got nothing of that--at least, I got nothing of that--from Yamaguchi in Washington, and I never heard Yamaguchi express that kind of view at a Board meeting. Now, whether Yamaguchi was saying that to Tom Clausen and Ernie Stern, I don't know. At least, if he was, they didn't tell me. I never heard it from them. I presume he wasn't saying it to them either. My meetings with Yamaguchi were usually, you know, sort of, "I don't understand what the hell you're doing. What is all this structural adjustment stuff?"

KAPUR: How did you see the change because . .

KNOX: Which change?

KAPUR: Structural adjustment, major shift in the Bank. One does, for example, Ben *[Benjamin B.]* King and Stanley Please had very differing views. How did you see it? Or how do you now see it?

KNOX: I'm sorry. In what way, though?

KAPUR: Well, in the sense of, one, whether the Bank, in trying to make changes in the policies of countries, whether (a) it should be doing it so explicitly.

KNOX: Well, I saw it in, I suppose, in various aspects of it. One is I saw it as a temporary phenomenon. I never saw this as something that the Bank would want to make the centerpiece of its lending over, for the rest of time. And I firmly believed that the Bank would have to continue with a very strong emphasis on project lending and that it was imperative that it maintain its capacity to do this. And I say in the Latin America region in the years I was vice president we tried very hard to ensure that structural adjustment lending was additional, not a substitute.

Now, I also saw it--again this goes back to our, what we were talking about earlier about the debt problem and the Baker Plan--that these quick-disbursing loans and the policy changes associated with them we saw very much or we hoped would contribute to a resolution of the debt crisis, again going back to the idea that you could help countries to, by policy changes, to strengthen their balance of payments and all that. And it was only, as I said earlier, later on that I began to recognize or fear that we had been too optimistic in our assumptions about the speed with which change could be brought about. But certainly it was my idea that one would have a period of this kind of lending, trying to help the countries overcome this appalling external crisis that they were facing, and then get back to the more traditional type of lending because I still believe that the Bank's fundamental role is trying to help countries strengthen infrastructure and productive capacity, strengthen their social services, and all that sort of stuff.

Now, I've never read Stanley Please's book. What's it called, *The Stumbling Giant*?

KAPUR: *The Humble Giant.*

KNOX: *The Humble Giant,* rather. But I gather that his thesis there was that the Bank ought to be really concentrating on policy, which I--I have my reservations about that. I think our capacity to do it is always going to be rather limited, and it's only, I think, in an extreme crisis situation that any self-respecting government would want to turn to an external agency like the Bank and say, you know, "What the hell do we do now?" I don't think they'd want the Bank always meddling in their, in fundamental policies. I may be wrong about that. I don't know what Ben King has said. Is Ben closer to what I'm saying?

KAPUR: Yes.

KINOX: I would guess that.

WEBB: And even when they do . .

KNOX: And again, this was one of my disagreements with the '87 reorganization where they were attempting to cast the structure of the Bank in a way that would facilitate structural adjustment lending. I said--firstly I said, "You don't need to do it this way," because my argument was, "Look, in the Latin America region we've done more of this kind of lending that the rest of the Bank put together, and we've done it without any need for structural change. All it means is using your head; that's all you've got to do. And we shouldn't be casting our structure in a form which we hoped would last for years on an assumption that this is the central feature of our activities because I don't think it should be the central feature of activity over the long term. This is an emergency situation, and we're trying to help deal with an emergency. We hope that countries will come out of the crisis and then we can get back to a different type of lending."

KAPUR: In some ways, although Ernie Stern was a casualty, in a manner of speaking, of the reorganization, but he had himself made this, in this interim stage, the Bank the central actor . .

KNOX: On structural adjustment?

KAPUR: Right.

KNOX: Yeah.

KAPUR: And he did think that that was, or at least it seems to be that he believed that that ought to be the centerpiece.

KNOX: Well, I would disagree with him on that, you see. I daresay that having got into this kind of lending, we are going to be doing it all along. But—and I would say probably in Africa we may have to--the Bank may have to concentrate on this for much longer than elsewhere. But after all, look, I mean the Bank has never had to do much structural adjustment lending--as far as I know it hasn't--in the Asian countries, and I don't see this as a permanent feature of life throughout Latin America. There may be individual countries where because of particular problems that they face will need this kind of help, but, you know, to think that Mexico is going to need structural adjustment lending for the next twenty years? I think Mexico will need a lot of infrastructure, productive capacity lending, strengthening the education system, et cetera. It will need a lot of lending of that kind. They're going to need money for that, but not for structural adjustment lending.

In Argentina, if Domingo Cavallo manages to sort the place out--and it looks a reasonable prospect. Chile doesn't need it now. With all due respect to Mr. *[Alberto]* Fujimori, he may need it for a while.

KAPUR: It has, however . .

KNOX: But I think that's the way this sort of thing has to be approached. You can't look upon this as, you know, “This is what we ought to be doing for the rest of time.” You've got to say, “Is this relevant to the situation that you're dealing with?” And my guess is that, given the horrendously difficult problems of Africa, you're probably going to need this kind of lending in many of the African countries for a long time.

Also bearing in mind that one of the problems we've found in Africa--and this goes back a long way now--was that so many project loans got into difficulties because the macroeconomic framework was all screwed up. You know, loans to help Ghana with cocoa production, for example, with a grossly overvalue exchange rate, they didn't work. And they couldn't work! Now, when you've got that kind of distortion in your basic policy framework, you’re not going to get very far with project lending. I mean, roads you can build, but I mean helping cocoa farmers with credits for cocoa production, you’re not going to get very far. And where you've got basic problems of policy of that type, you may have to address them over a long time.

But even in Africa, you see, you can say, “What is the African problem?” Very largely it's a problem of, more than anything else, probably, of education or training, extreme shortage of trained people. You're dealing with countries where 80 percent of the population may be illiterate. You know, they haven't got a hope in hell of doing anything with that sort of situation! So you need a tremendous emphasis on it. You probably need a tremendous emphasis on agricultural research, properly adapted to the circumstances of the African farmer. But equally truly, if there are serious macroeconomic distortions, you're not going to get very far with much of that until those distortions are put right.

KAPUR: How does this sort of shift towards a sort of the economic aspects of the Bank’s activities—how was it that Anne Krueger sort of made up in the research department? Did that, say, for example, have any effect on what you were doing?

Because some people have said that, look, the researching department was going on its way, but operations, they didn't really . . .

KNOX: Well, if your question means that I push devaluation, trade liberalization, and such like things in Latin America because Anne Krueger was doing research on that direction, the answer is no. I would have done that even if Anne Krueger had been going in exactly the opposite direction. And it is, in fact, one of the more fascinating things in the Bank that the operating side of the Bank goes its own way without paying any damned attention to what's happening there except that, if you find that the economics department is doing something that seems useful and relevant, you make use of it. If they're doing something that looks useless and irrelevant, you don't! It sounds terribly arrogant, I know, but that's what it is, you see.

KAPUR: One has that . . .

KNOX: I think that's the way it works, you see. You know, I remember some of my old colleagues at the London School of Economics saying, you know--this was particularly when Mahbub ul-Haq was here, you know—"How can you work in the same institution as Mahbub? You see, he's saying one thing, and you're obviously doing the opposite."

I said, "As far as I'm concerned, it doesn't matter whether he's here or not. Mahbub can go around making any kind of speech he wants. That's not going to influence what I am trying to do in West Africa or wherever I am. If I agree with him, I'll follow him. If I disagree, I'll ignore him."

And--but the way the Bank is structured, in fact, the regions, the operating regions, could if they wanted completely ignore what was happening elsewhere.

KAPUR: Did that—I mean, all of, like McNamara's public pronouncements and speeches . . .

KNOX: Ah, no, McNamara's speeches were different. You didn't ignore those because those came from the very top of the Bank, and he gave, he really gave the Bank direction. That's a different story.

WEBB: How do you see the whole poverty story in the Bank? We're trying to get an overview of that to write about it. I mean, one sees he comes in with this tremendous charge right from the beginning *[inaudible]*

KNOX: Well, there was his Nairobi speech in '70-something. I've forgotten exactly which year.

WEBB: It must have been '73.

KNOX: '73, it must have been about that, yeah.

WEBB: But even his very first speeches . .

KNOX: Yeah, but then it was . .

WEBB: . . and the very first *[inaudible]* and the next one. It seemed to be a crescendo, up to the Nairobi speech.

KNOX: Yes, but I think the Bank as a whole really woke up to what he was saying with the Nairobi speech.

WEBB: Uh-huh. Partly because that--it suddenly turned all the talk into something operational.

KNOX: Yes, and plus the fact that he made sure that he gave clear directions, particularly to the central agricultural department, the O-P-S--it had a different name in those days--agricultural department, that they had to concentrate their efforts on devising ways to, of, you know, developing the type of agricultural project which would benefit the poorest producers, the poorest farmers. And that was the time when Monty *[Montague]* Yudelman, whose own thinking was very much in that line, was appointed director of that department. Now, that's the way you get things done. I mean, you--you don't merely make a speech, but you make sure there's a guy there who thinks those ways and is going to get on with it. And that began to permeate the thinking of the Bank.

And we certainly got into the, you know, the integrated rural development. I think we learned gradually that the first efforts at integrated rural development were just too damned integrated; they were so complex. And we, you know, gradually put them in--certainly that idea was to try to address the problems of the producer right down at the bottom of the income scale.

But it was--it wasn't just a speech. It was certainly a charge on, particularly on the agricultural department, that you're mainly addressing poor farmers. They had to develop that kind of lending. Did you talk with Monty? He must be still around somewhere.

KAPUR: Yes, we did, John and I.

WEBB: I missed that. I remember him well. I remember meeting him *[inaudible]* it was ag and urban.

KNOX: Yes.

WEBB: Two big departments.

KNOX: Well, urban likewise, the same emphasis there.

WEBB: Same kind of person in *[Edward V.K.]* Jaycox.

KNOX: Same kind of person. He put in somebody whose heart and soul is in this sort of thing, you see.

WEBB: What about the relationship between Yudelman and the area in pushing this through. How did you see that working out?

KNOX: It worked on the whole fairly--I mean, there was obviously resistance in some areas, in some parts. I know that some of the division chiefs, agricultural division chiefs in Latin America, didn't take too kindly to this at first, but they gradually came around.

[pause in recording]

WEBB: . . the way that Yudelman's push was received in the area departments.

KNOX: Well, I know, as I said, I was then projects director in Latin America, and I know some of the agricultural division chiefs were skeptical. And I myself was skeptical at first about the feasibility of doing this. I had serious reservations at first at whether we really could design programs that would effectively help the lowest income producers to increase their productivity. Don't forget that was the emphasis. It wasn't an emphasis on a redistribution program. It wasn't a taxation program to feed money to those people; it was a program designed to help them to raise their productivity. And I was, I know initially, skeptical as to whether we could design programs that would do this, and gradually I became persuaded that this was in fact a feasible thing to do, that I began to see it working.

WEBB: Did you see it actually work somewhere where it more or less still works, or it did for a good while?

KNOX: Well, certainly in some of the programs that I went to see in Africa, when I saw them, looked as though they were working, that they were, that people were producing more, and that productivity had been raised.

WEBB: And this was early '80s?

KNOX: Early '80s.

WEBB: Yeah. And that the cost/benefit was successful?

KNOX: It seemed to be, though I know that later on people began to have reservations about some of those African projects, and I can't tell you exactly the basis of the reservations because by that time I had moved on elsewhere, so . . .

KAPUR: I think in the *[inaudible]* but it's one in which, where you sort of add on more and more components to the projects, want to *[inaudible]* money to, the end result being *[inaudible]* too complicated.

KNOX: Well, certainly I know that some of the projects, I think, were too complicated. I well remember the—it was one of the last projects I dealt with before I left the post of projects director for Latin America, so this would have been sometime in ‘76. It was a project in the northeast of Brazil, which to my way of thinking was incredibly complicated. And I think I'm right in saying that experience showed that it was. I remember adding up the number of, just checking the number of agencies of the Brazilian government that were involved, and it was something like 30 or 35. I said, “My god. How in god's name is anybody every going to coordinate all this sort of stuff!” And I think experience showed that a project of that type was too complicated, that something simpler had to be devised.

WEBB: And in urban lending, the Bank also charged in a bit later, sites-and-services . .

KNOX: Sites-and-services, yes.

WEBB: . . and it was, other variants, experimenting that we—one sees a lot of change in these.

KNOX: Right.

WEBB: Do you have a sense of--to me it looks like a frustrated effort, to a large extent, sort of the Bank searching for operational formulas, something that would have the energy that it had on the rural side, a clear message.

KNOX: Well, I think it was. I don't know if we ever found a way to do this, and I’m not sure we ever persuaded, really persuaded our borrowers that this was the way to go. After all, there was a very strong, very deeply embedded feeling in many countries--perhaps most countries--that if you’re going to provide housing for the poor, the only way to do it is by subsidies. You’ve got to--you build low-cost housing, and you subsidize it heavily. And the Bank, of course, was arguing that you could do this without subsidies or without significant subsidies. And particularly if you went through the sites-and-services approach you could get your costs down to such a level that you could provide low-cost housing for the very poor without subsidies or at least without any substantial subsidies. And I’m not sure that we ever persuaded the people in countries throughout the world that this was a feasible thing to do. I remember having discussions in Tunisia when I was in the EMENA region, and the Tunisians were very, very skeptical.

There were some areas where the thing seemed to work. There was an interesting program at one time in El Salvador which seemed to be producing good results, but it was a very, very mixed picture. I’m not sure that we ever really found out how to do this. Or if we did find out how to do it, we found out how to do it after I’d left the Bank. Perhaps we know the answer today, but when I was here I was never convinced that we had really found the answer to how to provide really low-cost housing.

WEBB: The way I see or what I see is that the Bank eventually put all its money on health and education, what they call “social lending,” and that this has become the proxy or the way to do something about poverty. They sort of gave up on other ways of targeting because they ran into so much trouble with the integrated rural development.

KNOX: Well, I certainly think that the Bank—when I was here I pressed very hard for more emphasis on education, and I'm not sure--I don't feel that I was as successful or perhaps I didn't press hard enough, but I don't think I ever got quite what I wanted on education. It's a difficult area, of course, for lending because, as you know, the problem is, the problem that an institution like this faces is we are geared to provide bricks and mortar and that sort of stuff, but education is a heavy, continuing, recurrent expenditure. And we're not geared to do that, and I'm not sure we ever really found out how to ensure that the schools we financed could then be run effectively.

WEBB: The Bank's went out on a big, long limb on poverty at the moment.

KNOX: Is it? I . . .

WEBB: Yes. We'll see how it works out.

KNOX: But certainly the--to me the, almost the key African problem is education. Latin America is a different situation. It's not basic education as such; I suppose it's more technical training. I don't know whether you would agree with that.

WEBB: Oh, yeah. There are very high levels of primary enrollment and low illiteracy rates.

KNOX: But still a big need for improving technical skills.

KAPUR: Did you ever in the EMENA region ever approach the issue of female education?

KNOX: Not really. We tried to grapple with it, I know, not with much success because you ran into strong resistances, very strong resistances.

KAPUR: McNamara didn't really feel very strongly on it to make it a sort of . . .

KNOX: No, I think, I think he, I think he felt fairly strongly. I know I certainly discussed the problem with him. So I think he felt very strongly, but I don't think we ever figured out how to. After all, you're challenging some very basic cultural beliefs there, deep in the culture, and you can urge, you can advocate, you can try to persuade, but in the end you--if the culture isn't going to change, there's nothing much you can do.

KAPUR: A bit like population in Latin America.

KNOX: Same thing. Same thing.

WEBB: There's one reference to you in this book. I don't know if you know.

KNOX: There's a footnote in there [both speaking at once] I've forgotten what the footnote is. I remember I got a footnote somewhere.

WEBB: It quotes you as saying that--this is 1970; you were then director of transport sector--it quotes you as saying that, "There's very little evidence that the Bank has ever applied or used shadow exchange rates."

KNOX: Did I say that?

WEBB: Yes.

KNOX: Okay. I think it was probably true at the time.

WEBB: What about later?

KNOX: I think so, yes. We moved more in that direction. But again I used to have arguments with some of my colleagues in the--people like Herman van der Tak, for example, who was promoting very much the idea of social criteria for projects. And my argument was, you know, "We are refining ever more our economic analysis of projects, but all of this is based on cost estimates which nobody ever takes a bother to look at." And some of those cost estimates, as we know from experience, some of them can be pretty damned wide of the mark! And if you're coming out with more and more subtle calculations of your economic rate of return and your cost estimate is 50 percent off, your economic rate of return is going to be kind of off too!

KAPUR: A sort of a broader sort of observation which one sees, especially in the '80s in the Bank but increasingly even in the '70s, the increased emphasis on formal modeling.

KNOX: Too much.

KAPUR: Yet one looks at the numbers and data and . . .

KNOX: The data are just as adequate or inadequate as they'd ever had been.

KAPUR: Right. I was wondering about a sort of incentive structures within the institution which lead to people, you know, because you're looking at data and cleaning it up: it's mundane and really time consuming and it's not—I don't know, for lack of a better word--it's not as sexy, in a way.

KNOX: But it also part, you see, of what we were talking about earlier, the increased dominance of the economists in the Bank. You see, in the '60s the engineer was king; by the late '70s the economist was king. And the result is that less and less attention, I mean in terms of--I mean, the Bank, as you know, has the most (or has had; I don't know if it still has) had the most extraordinarily elaborate review system, but it was a review system which tended to focus on the niceties of economic calculations rather than whether the basic cost estimates were right or wrong or whether the basic design was right or wrong.

KAPUR: Well, I do see McNamara in *[Hollis B.]* Chenery's files. He's about the only person whom I've seen who responds to this question of numbers.

KNOX: Yes. No, people didn't. I mean, people started to focus more and more on techniques rather than on the basic numbers, and I think it's in part linked to this fact that the engineers gradually got pushed down to be less and less important in the whole decision structure of the Bank.

WEBB: Did you study at Oxford?

KNOX: No, I studied at Toronto and the London School of Economics. And I taught at the London School of Economics for 14 years before I came here.

WEBB: Is that right?

KAPUR: You know, Nick *[Nicholas H.]* Stern is writing a chapter.

KNOX: Yes, so I gather. I think it would be the best of the *[inaudible]*

KAPUR: I was wondering; it's getting late. At some point could you reflect on the circumstances around the reorganization?

KNOX: That's a subject on which I get kind of violent, you know.

KAPUR: I'll change the tape in that case.

[End Tape 2, Side A]
[Begin Tape 2, Side B]

KAPUR: . . but that seems to have been a very important part of the Bank's history, both why it was done, who was behind it, what was the motivation, and of course the manner in which it was, extremely *[inaudible]*

KNOX: Yes, well, if you ask a serious--starting off, did the Bank need to be shaken up, the answer is clearly yes. The Bank had become--still is, I think--excessively bureaucratic, excessively concerned with contemplating its own navel, excessively concerned with detailed review and fussing over all kinds of the sort of thing we've been talking about, fussing over all kinds of details, particularly the economic analysis of projects. Very centralized, and with a long decision chain. So all of that needed to be changed. And indeed there had been before Conable arrived a committee headed by . .

KAPUR: Steve *[Stephen M.]* Denning.

KNOX: Denning. That's right. I couldn't think of his name; Australian, very efficient. Which had produced, I think, some very sensible proposals on how to streamline at least the decision making process in the Bank although it didn't address a lot of other issues. But those proposals were never really gotten to the point of being implemented because they were then overtaken by the Conable revolution in the Bank.

The pressure for what Conable did, I'm sure, came largely from the U.S. The tremendous criticism of the Bank's budget in the last year of Tom Clausen's regime and the end of his regime here when the Board almost rejected the budget, which was immediately before Barber Conable became president.

Now, part of the argument in the Board about the budget to me was totally misconceived. It was the argument that we are all going through fiscal problems. We have budgetary difficulties; the United States with a huge budget deficit; therefore you, Bank, must cut back--which to me is absolute nonsense because the Bank was a highly profitable institution. It was not relying on any of these characters to pay its bills. The people who pay the Bank's bills are its unfortunate borrowers, who pay the bills through the interest rates they pay. So, you know, the link, "I have a budget problem; therefore you, Bank, must have a budget problem" was nonsense. On the other hand, it was also true that, I think, the Bank had become too big, and there was a real need to think through what we ought to be doing.

What concerned me about the '87 reorganization was, firstly, I didn't think that it addressed at all some of the problems of why we had become too big and where the fat was. Secondly, it put in place a structure which I thought was going to have at least two very undesirable effects. One was it was going to destroy the ability of the division chief, the technical division chief to exercise effective quality control--which meant that if there was to be any quality control, it would be exercised higher up rather than lower down, and that to me was nonsense. We ought to be pushing it down not pushing it up.

And the second disastrous consequence, or potentially disastrous consequence I thought I saw, was that the Bank was being divided up into little packets. There was, for example--I took this, I remember, in my discussions with Barber as one of the extreme examples--there was a department exclusively devoted to Brazil. I said, "Fine. That's great, as long as Brazil is in good shape and we have a big lending program in Brazil. But what happens if something goes wrong in Brazil? And we know from experience that things can go wrong in Brazil. What happens? And the lending program collapses? What do you do with this department?" Now, the answer is, of course, you take people out of it. You would take consulting resources out of it and put them somewhere else. But human nature being human nature, what's going to happen, the guy who's in charge of that department isn't going to come along and say, "Look, I've got a load of people and consulting money that I can't possibly use. Wouldn't you, my friend dealing with Mexico, love to have them?" He's not going to say that! He's going to hang onto them. And who is going to have to decide to move them? The regional vice president, who is probably the least well equipped to decide who ought to do what in terms of staff. He doesn't know them well enough. That instead of dividing people up into these penny packets, we ought to be going in exactly the opposite direction and having larger divisions with more responsibility on the division chief because he is the guy who can really decide whether Joe Stooks is the ideal man to move from Brazil to Mexico or what.

And in fact, I told Barber, “This is exactly what we've been trying to do in the Latin America region. We had four agricultural divisions; we now have three. We are now considering how to get them down to two. We had two transport divisions; we now have one. And so on it goes--all with the idea of being able to say to a single division chief, ‘You are responsible for this area of our activities. Here are the resources to get on with it. Now, you get on with the job, and you decide how to deploy those resources’ in the belief that that is the best level to put the decisions of this type. Higher up you can decide great thoughts about policy, but low down you decide who does what, how you do it and so on.”

And I thought it has been working extraordinarily well in Latin America, given the fact that we had been able to shift very quickly onto structural and sectoral, more particularly sectoral adjustment lending, and we’d been able to move people backwards and forwards. You know, one year the Mexico program more or less collapsed on us. That didn't cause us any problems because everybody went to work on other countries. No difficulties. And I also remember there was the--this was in was my last year--when the Mexico program suddenly, Mexico began to take off, and I had a meeting with the director and said, “Okay, we've got to do this much extra in Mexico. You figure out how to do it.” And of course they figured out how to do it. I didn't have to get involved. All I had to do was say, “This is where we ought to put our emphasis.” And I thought that was my responsibility to say where we ought to concentrate. It was the responsibility lower down the line to say how to concentrate. But my concern with the structure that was established was it was going to push the decisions on how and not merely where, but they were going to push, all the decisions were going to be pushed up with immense loss of flexibility. And this is an institution which deals with a highly uncertain world. It has to be as flexible as it possibly can.

So I had those two objections to the structure. Firstly, I thought that it was destroying the possibilities of quality control at the division level, and secondly it was likely to make the whole thing more inflexible and push up decision taking, not merely on what to do, which has to be at the top, but on how to do it, which does not have to be and which in fact is best at the lowest possible level.

And then, of course, I was deeply concerned about the whole way in which the staff was being treated because one has to bear in mind that there are an awful lot of people in this institution--perhaps they are not officially political refugees, but they can't always go home all that easily. If you're a Chilean and you haven't got along very well with General *[Augusto]* Pinochet, you can't really pack your bags and take yourself off. And there are a lot of people in the Bank like that. And if you say to them, “My friends, you have no jobs”--in fact, you realize the whole, the entire staff of the Bank was in fact sacked and then told, “In due course we’ll tell you.” And “in due course” meant for some people—“in due course” for me was fired. It was a matter of a couple of days, and I was told, “Get the hell out of the place." But some people were hanging on here for six, seven, eight months before they knew whether they had a job. You can't treat people like that! And the effects on the morale in the Bank were disastrous!

Now, the other problem was that I thought there were some big issues which were never addressed. One of the problems with the Bank is the structure of its Board, which I felt over the years of watching it in the time I was here, had become less and less equipped to be the kind of policy, central policy organization that a place like this needs. It consists essentially of middle-level civil servants who are here for a couple of years and have got their eye on back home because that's where the next promotion comes, if there is a next promotion, or where, if they're not careful, they're out on their ear. So they're not really concerned with the Bank. They're concerned with what's happening back home.

WEBB: And not getting thrown out, because they collect incredible salaries compared to anything they normally have [both speaking at once]

KNOX: That would not be difficult to criticize, but that would not be touched.

But then the whole other question, you know, is--we were talking earlier. We have this huge research establishment in the Bank. I was saying earlier I didn't give a damn what they were saying. Perhaps I was being unduly arrogant to say that, but it's a fact of life. Does the Bank need this huge research establishment? Or would it be better if it had a research budget and a small, tough core team, and a good deal of contracting out? There are a lot of competent people. And, of course, it would also help this problem that the Bank was more and more, as I said, contemplating its own navel, because by the time you read all the things that the Bank itself wrote, you had no time to read anything that anybody else wrote.

And we were getting more and more introverted. And it's disastrous for an institution like this to become introverted. You ought to be exposed to ideas from outside, and one way to get ideas from outside is to get, well, people like Nick Stern, for example, to write something on this or that. And while we did that to a certain extent, but we did it to a limited extent because most of our thinking was in-house thinking--and it was in-house thinking which was heavily influenced by in-house thinking. You know, it was a system that just fed on itself, and the new ideas that were coming in were comparatively limited. One of the great advantages of Bob McNamara was that he brought in his own new ideas, but I mean Tom Clausen by and large didn't do that sort of thing. Barber Conable didn't. But in any case, it's nonsense that you've got to rely on one man who happens to be president of the Bank to bring in some thinking about what you ought to be doing. That whole system.

And, of course, in addition to that we--the number of people in the Bank whose whole raison d'etre was looking over other people's shoulders. I used to argue with my staff; I'd say, "Why the hell do you chaps put all this, write these enormous reports?" Well, there are two reasons why they write these enormous reports. Firstly, most people find it easier to write an enormous report than a short one. But in addition to that, they always said, “It’s okay. You tell us that, but we know that if we don't write a report in which we have a chapter on this and a section on that and a section on the next thing, that somebody is sure to ask us why the hell we haven't put in a chapter on this or that or the next thing. And life is just easier if you put it there in the first place.”

KAPUR: You have to have a women in development and [both speaking at once]

KNOX: Oh, yeah, you've got to have everything--whether it's relevant or not. And my thing was, “Look, why the god-damned--if it's relevant, you put it in. If it's not relevant, forget it!” But, of course, those reports were being subjected to scrutiny by a whole host of people, one of whom would be interested in women in development, another of whom would be interested in some aspect of the environment, another who would be interested in something else, and all of whom wanted to know why their pet theme was not being dealt with. This is a disastrous way to have a quality control system! But that issue was not addressed--well, it was addressed in the sense that the PTR or whatever it was called was pushed off to one side and told to mind its own damned business, but they were still there.

Again, as I say, you, instead of being able to--at the technical level you had these multi-level divisions, and there is nobody in the world who is an expert on electric power, water supply, transportation, and you name it, which is what some of these divisions cover, or who is an expert on education and population control, et cetera. So the unfortunate division chief is simply not capable of exercising quality controls. So either it doesn't get done at all, or it gets pushed off somewhere else.

KAPUR: Don't you think that the [both speaking at once]

KNOX: I thought, you see, this whole damned thing was a--instead of taking the Bank and giving it the kind of shaking up that it badly needed, was giving it a hell of an irrelevant shaking up and producing a structure that to me was disastrous and doing it in a way which was destructive of the Bank's morale. And I believe I can claim that I was at least 102 percent right!

KAPUR: How was this group chosen? *[inaudible]* find out, you know, this steering committee? Who chose them? On what basis?

KNOX: The steering committee was chosen by Barber, presumably.

KAPUR: It was entirely his?

KNOX: I think so--as far as I know. Certainly nobody asked my views on it, I can tell you.

WEBB: But he hardly knew the Bank.

KNOX: Well, that was one of the problems.

WEBB: How could he choose people when . . .

KNOX: Not only did he not know the Bank--I'm sorry. When you say the "steering committee," are you referring to the high level steering committee of Rodrigo Botero, Bob McNamara, et cetera, or are you [both speaking at once]

KAPUR: No, I was thinking of the Bank's, the Jaycox [all speaking at once]

KNOX: Oh, no, no, no. Well . . .

KAPUR: . . because they--in a way, they were the only people who knew the Bank. I mean, of course they, it seems [both speaking at once]

KNOX: Where Barber Conable found the consultants, whose name I've forgotten, Cresap and McCormick *[Cresap, McCormick and Paget]* or whatever they are, I don't know. I suspect--my guess is he was probably told to employ them by the Treasury Department or something of that sort.

KAPUR: Someone told us that they were *[inaudible]*

KNOX: Could be. I don't know.

Why Kim Jaycox? I don't know. I mean, Kim is a very bright chap; there's no doubt about that. I can only say that the scuttlebutt in the Bank at the time was that Kim's father used to contribute heavily to Barber Conable's election funds.

KAPUR: Oh, no, no. I'm sorry . .

KNOX: That may be a very nasty remark, but that's what the scuttlebutt in the Bank was at the time.

KAPUR: His wife . .

KNOX: Was it his wife?

KAPUR: Yes, and with Bill *[William J.]* Stanton. That's the connection.

KNOX: Oh, that's right. Yes, I know Bill Stanton was involved. And I suppose it was Kim largely who picked the other people who worked with him.

KAPUR: Who all did very well.

KNOX: All of whom did extremely--well, not all. There were one or two who did not do very well, and they were the ones who kept on saying, "Yes, but." But all the ones who simply said "yes" without the "but" did extremely well. Which, incidentally, is totally different from the 1972 reorganization. That also was largely the work of people within the Bank with the help of McKinsey *[McKinsey & Company]*, but it was very much the work of people within the Bank. The people who were the authors of that revolution, largely speaking, continued where they were. They did not flourish as a result. But with the '87 one, it was very noticeable that all the people who had tagged along did extremely well afterward. They all got promoted. That's a pretty lousy way to do a reorganization.

WEBB: Who were the "but"-ers?

KNOX: Well, I think of, for example, a man called Spiros Boyadzis. Have you met him? Spiros was one of my division chiefs at the time.

WEBB: How do you spell his name?

KNOX: B-O-Y-A-D-Z-I-S. Spiros Boyadzis. I mean, I think of him, for example. Spiros I know raised some very pertinent and awkward questions, and he ended up exactly where he was. In fact, he barely hung on to a division chief job. I think he considered himself lucky to have survived.

It was--the whole business was poison. It really was an awful period. I agree I am prejudiced because I was one of the sufferers. I mean, I lost my job, but--except that I wasn't a serious sufferer. I mean, Barber Conable didn't know this; I intended to retire a year later anyhow, so it didn't affect me that much. In fact, my official retirement date from the Bank, while I had ceased of any job, any work to do, on the 31st of May, my official retirement date was the 31st of January 1988, and I had intended to retire round about April '88. I didn't intend to stay until I was 65. I thought I had been here long enough. It was time somebody else took on the Latin America region.

But I thought it was an appalling example of an opportunity missed to address some fundamental questions and, worse still, it resulted in a structure and a whole process that was, I think, disastrous.

KAPUR: It's also become more clique-ish in the organization. There are all these groups one sees . .

KNOX: The Bank has become compartmentalized, totally compartmentalized. Clique-ish—you're absolutely right.

KAPUR: Sort of you're identified with a particular person as you go up the ladder.

WEBB: You've had two or three years out now. Have you . .

KNOX: Three? Almost five.

WEBB: Five years.

KNOX: Well, I ceased to be vice president for Latin America on the 31st of May 1987, ten days later. It was my fifth anniversary. And I then--I was allowed to keep my office and my secretary, so I sat on the ninth floor of the old A Building, and I thought I was going to have absolutely nothing to do. You know, "How the hell am I going to pass the time?" I was in fact originally expected to stay here physically for six months before I could leave, and I finally got a decree that I could clear out at the end of August, which was what I did. And I still wonder--I began to think, "What the hell am I going to do? I have no job."

I soon found I had a job because I became unofficial counselor. People came to see me from all over the Bank; you know, "What should we do? Where should we go? Is there a job list? Should we try to find something outside? What's the best way of finding a job in the Bank?" And, you know, mostly impossible questions to answer, but I mean the atmosphere was one of fear. And I was one of the really very fortunate because I knew where I was going. I was given a reasonably handsome golden handshake, could walk out. But these unfortunate people who stayed in the Bank, I mean really were sitting there wondering, "Am I going to have a job, or am I not going to have a job?" and "What kind of a job am I going to have?"

WEBB: In sort of keeping outside *[inaudible]* had contact with people who in turn relate to the Bank, other countries, perhaps, or companies. I wonder how your perception of the Bank has changed in any particular way that you have noticed.

KNOX: Well, since I left? I wouldn't say it's changed. I mean, people I have come into contact with, and I come into contact with people in England who have dealt with the Bank, and I find generally speaking they have a good opinion of the place, or had a good opinion of the place.

WEBB: I must confess that I'm quite amazed at the reputation of the Bank, not because I think it doesn't deserve it—there are a lot of marvelous people in the area, marvelous records--but even so, despite all that, I'm amazed at just how enormous the reputation is.

KNOX: Yeah.

WEBB: It really straddles the world.

KNOX: In part, you know--with all due respect to these other institutions--in part it is because the regional banks, or at least the two that I am well acquainted with, I think fail signally to address a lot of important issues. I think this is true of the IDB *[Inter-American Development Bank]* in Washington. The IDB until quite recently refused to have anything to do with advising on economic policies and I think--and I'm sure you would agree with this, Richard--was regarded in Latin America as a soft touch, and soft touches don't have a good reputation. In Africa, I think the African Development Bank failed miserably. I mean, when we—when the first of the World Bank's reports on, you know, trying to address, work out what to do with Africa came out in my first year as vice president for West Africa, and it was my job to go and discuss this with the African

Development Bank in Abidjan. They had truly the most ludicrous ideas! And it wasn't a discussion in which we would say, “Now, how can we figure out jointly what to do.” Their attitude was, I mean, “Throw the whole thing out.”

KAPUR: Who was the author of that report?

KNOX: That first report?

KAPUR: Yeah.

KNOX: That was Elliot Berg, was the principal author.

WEBB: We're talking of the 19S0 one?

KNOX: Yeah, that was the first one. Elliot was the, as a consultant to the Bank, was the principal author. It became, I think wrongly, known as the “Berg Report,” which implied he was the only author. He wasn't; I mean, it was very much a collective work. There was a great deal of discussion in the Bank at the time about it, trying to see whether we could work out, trying to formulate some policy.

But, you see, the African Development Bank was totally negative, and in fact they hadn't thought about these sorts of things. Now, I think that’s—and again, they were regarded throughout Africa as a very soft touch. I think that helped the World Bank's reputation because--didn't have much competition.

Now, I don't know the Asian Bank. *[inaudible]* never well. I had minor dealings with them years ago but not very much.

And I think if those banks had discharged their responsibilities more effectively and had really been a serious alternative source of advice, then the World Bank wouldn't stand quite so high in the world as it does. But there was no choice. There was no alternative. Or the only alternative was the Fund, which was, generally speaking, pretty bloody-minded.

KAPUR: I’m sorry. This is another thing that, I know, John, has been wondering, and so I’m asking: how did the Elliot Berg report come about?

KNOX: Well, I wasn't in at the beginning of this because it was already in hand when I was appointed vice president for Western Africa. But it came about, essentially, because, you know, the Bank had become and people working on the Africa region had become increasingly worried about the fact, as I mentioned earlier, that, you know, you had individual projects which were failing because of a policy--they were trying to carry them out in a policy framework which was almost totally adverse, hostile, and the growing recognition that Africa wasn't going to get anyplace and that our lending in Africa wasn't going to get anyplace until one could--at first they tried to work out what kind of policies would be more conducive to economic development in Africa and then tried to persuade the African governments to adopt them, and this was a first attempt to formulate a set of policies.

And there was intensive discussion about this. I went--as I said, I had discussions with the African Development Bank in Abidjan. We had discussions with the Organization of African States, the Economic Commission for Africa, and there was a meeting of the African Governors of the World Bank in Dakar, in Senegal, in—let's see, I have forgotten this, sometime in '80, '8l--to discuss this report. I was sent there by the Bank to address that meeting. And so there was a great deal of discussion about this and very mixed reactions on the parts of the African governments. Some governments said, "Yes, this looks like some sense. Perhaps we can try it." Some were very hostile. The meeting of the Governors in the end voted, in a majority vote to, in favor of the report, but I still think that vote was in part the result of some very skillful maneuvering by the chairman of the meeting who was the then finance minister of Senegal. I can't think of his name; very able man. At least, I thought he was able because he agreed with me. And then, of course, as you know, they formed a series of these reports, all trying to refine and take into consideration the objections raised during the process.

But, you see, the interesting thing is that that attempt at intellectual leadership came from here when it really should have been coming from somebody like the African Development Bank who weren't doing a damned thing about this, or from the Economic Commission for Africa, which--worse--just sat on the sidelines and sniped.

WEBB: Yeah.

KNOX: And likewise in terms of trying to develop structural adjustment programs for Latin America, you can argue as to whether they were good, bad, or indifferent; but at least there was an attempt in this institution to do that, whereas the IDB was doing nothing on that end when they should have been. They're doing it now. I mean, I think this one of the changes which Enrique Iglesias has brought about. He's getting them more and more into this sort of thing.

WEBB: With a gun at his throat.

KNOX: Well, to a certain extent, to a certain extent with a gun pointing at him, too.

WEBB: But he's on that wavelength.

KNOX: Yeah. Enrique is, I think, personally is on that wavelength. I think, again, the gun probably helps him move! I think he might have gone even without the gun.

WEBB: Well, he's also very political.

KNOX: Yeah.

WEBB: You've been extremely generous. I'm embarrassed that we've taken your whole morning.

KNOX: Well, I was looking at my watch because I have a lunch engagement. I haven't got to dash off just immediately. Look, I don't know whether any of this is of any use to you.

WEBB: Oh, it's terrifically helpful.

[End Tape 2, Side B]
[End of interview]