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Transcript of interview with

RAINER B. STECKHAN

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Interview by: John Lewis, Richard Webb and 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.

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[The quality of this recording begins to deteriorate just over halfway through the first side and is becoming quite poor by the end of the first side.]¹

[Begin Tape 1, Side A]

LEWIS: . . . it's mostly just to--well, we're going to get some good quotes out of these tapes, but it's mainly to sort of supplement our own memory, which is pretty fallible.

STECKHAN: I'll deny later!

LEWIS: These guys take notes like mad! I don't even pretend to take notes very much; I'm relying on the tapes.

You came back from Paris. Did you go straight to the Mexico assignment?

STECKHAN: Yeah. At that time the department was a Pacific department: Mexico, Central America, Panama, for some odd reason Haiti and Dominican Republic, Peru (that's when we met), Ecuador and Chile. And then Enrique [*Lerdau*] had the other side, the Atlantic side. And that is summer of 1983.

LEWIS: Right. So the crisis had been at work for about a year by that time, is that right?

STECKHAN: A little less. You know the crisis really blew up at the Toronto annual meeting of September, end of September 1982. I was there. I remember that was called the Mexico meeting.

LEWIS: Was it?

STECKHAN: Yeah, it was the Mexico meeting. There's a good piece on the Mexican crisis--I think it's Kraft . . .

LEWIS: Joe [Joseph] Kraft?

STECKHAN: Somebody from the *New York Times*. Yes.

WEBB: The Mexican rescue.

STECKHAN: Yeah, the Mexican rescue.

WEBB: Is it accurate as far as you remember?

STECKHAN: As far as I remember, yeah.

LEWIS: Okay, that's good, that's good.

¹Insertions by the Brookings history project transcriber are in []; additions by the World Bank Group Archives are in *italics in []*.

Well, we've got, we had some good notes on--I'm going to fish them out—on the-- somebody's been through all of the L-E-A-P LEAP files on Mexico and has—but . .

STECKHAN: What are LEAP files?

LEWIS: Oh, I'm very glad to hear you say that, because I didn't know. I was just told this morning that they stand for Loan, Economics and Program files.

STECKHAN: Illegal department files--illegal and inappropriate. *[laughter]*

LEWIS: Sort of leap year somehow, is it?

Anyway, this is taken from LEAP files, and Richard has more questions than I do here. But the one thing that fascinated me, I've been trying to write something about policy and the tension between projects and policy in the whole history of the Bank and take the *[Robert S.] McNamara*, *[Ernest] Stern*, Stanley Please shift to SALs *[structural adjustment loans]* as a pretty important turning point in the history . .

STECKHAN: Um-hum.

LEWIS: . . and seeing it as a time when it was finally decided that program loans are better vehicles for policy than projects.

STECKHAN: Yeah, that was on the occasion of Yugoslavia, wasn't it?

LEWIS: Well, yes, that's right.

WEBB: Belgrade.

STECKHAN: That's right.

LEWIS: They made the announcement at Belgrade and did the first ones in the very beginning of 1980. And so along comes Mexico with a great big adjustment problem, and you can sort of imagine that--and Ernie's pretty much in charge of things and SALs are his baby--I would have guessed that Mexico would be a prime candidate. And instead we find Stern almost vehemently rejecting, it sounds like, SALs and saying this S-A-P thing .

KAPUR: Special Action Program.

LEWIS: Yeah. What can you tell us about that?

STECKHAN: If you look at the speeches of the president at the time, and even when I was still in Paris we only talked about a liquidity crisis. And while that may have been the PR *[public relations]* arm of our great institution, which has nothing to do with the

other part of the institution, I think there was underlying confusion and people just tolerated this language at the time.

I can remember Tom [*Alden W.*] Clausen—I'd no idea I would come back to Washington to this job--talking to me over dinner, he said, "You know, when I went to Mexico, whenever it was, let's assume it was July of '82, they'd given me a briefing and, you know, all kinds of things. And so I was asked to make a positive statement on Mexico, and I did. And," he said, "two months later the walls caved in. So I went back to my briefing to see whether there was anything on the debt issue." He said, "Yeah, it was there, but it wasn't written all over."

What I'm trying to say is there wasn't a feeling, I think, in '82-'83, written all over our thinking that these were structural crises. My impression was that people thought--and I looked at this with a certain detachment that you shared at some stage when we were in exile in Paris—people thought, "Yeah, it's a question of cash." And so that Special Action Program was a logical response.

KAPUR: By '84 when you had the CPP [*country program paper*] for Mexico, this is around the middle of '84, and there also it also specifically rejects structural adjustment lending as, quote, not feasible.

STECKHAN: Well, it's a good comment. I wanted to say first broadly there was a phase of confusion, of trying to learn and trying to put it while we were learning in a traditional mode of saying these guys need some cash. Then came the phase of recognition that it was structural. But then the next question was how do you attack it, and there was a feeling that I fully shared and maybe promoted that Mexico was too big to consider as a candidate for a structural adjustment loan, meaning an overall thing, and that there would be better to start tackling areas--in addition to stabilization, of course, which the IMF [*International Monetary Fund*] would do--tackling areas sector by sector.

LEWIS: Too big, Rainer, in terms of sophistication or . . .

STECKHAN: Also in terms of—you know, Mexico will always pop up, sorry to say that, is there is 150 years of Mexican-American history. These guys are so sensitive, and we were and still are clearly identified with Washington. To tell them, "Fellows, shape up A through Z, and we'll give you a little money" was to me inconceivable, and I would still maintain this is so. And so it would better to probe, and we did start with TPL [*tariff preference level*], trade side. We did probe, and that's how it--are you interested? Stop me if you . . .

LEWIS: Oh, very much so! Please! Just run right along.

STECKHAN: I still remember the guy--dead, unfortunately--one day he went to Mexico, we talked a little about trade. And I said, "Explore it a little."

And he came back a little pale, and he thought he had committed the crime of the

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century. He said, “You know, I talked about this with the Mexicans, and there seemed to be some receptivity, and they said, ‘Why don't you put it on paper?’” And he said, “You know, Rainer, I didn't check with you. I put my thoughts on paper.”

I said, “That's wonderful.”

So there was a little piece of paper where he tried to outline why trade liberalization, what it would do for the economy, pros and cons. And I think that was one of the things that moved the thing.

Then we said, “Let's negotiate something, put money on it.” Those negotiations were very difficult. There was a phase--and that we learned only, I learned only later--that there was a tremendous debate within Mexico, exactly the debate I had feared: Was it proper for a Washington-based institution to tell them anything on policies?

KAPUR: That would be '83, '84?

STECKHAN: Yeah, in that turn. I would say late '83, early '84. But I guess we can pinpoint it, because I didn't know it at the time.

And there were the hardliners, nationalists, and the gringo and the foreigner and the Bank said, “No way. It's not their business.” And in the end prevailed—which was in the hands of the minister of finance, who said, “That's fine.”

The negotiations on the first TPL were terrible, terrible, I mean, haggling over the way we defined it and haggling over targets for the first tranche, the first tranche and the second tranche were just plain awful. And you look at the figures, and they make no economic sense, they were arbitrary, and that's just the result of acrimonious debate.

Once the Mexicans thought it all over, they felt it was the right way, they exceeded the targets. That was very Mexican: They stick it to you, and then they do a little better, just to show you who was in charge. But it's also, I think, it's deeper. The thought process was provoked by this type of informal context on a number of the areas--interest rates was another one—and so then it took a force of its own. And for my money, what it really meant was that the Mexicans started early in the game owning their program, that we gave a little kick and a shove here and there, but they took it over. They absorbed it intellectually, they tested it politically, and then they said, “This is our program.” And that eased the dialogue. First we weren't in there as a super force saying you have to do everything at the same time so that we get a SAL. We said, “Look, fellows, you start either here or there. You tell us.”

And then ultimately, when we did the big loans—whenever it was, '87--the three 500 million dollar loans, so-called sector adjustment loans--they came to us. It was the last year of the [*Miguel*] de la Madrid administration, [*Gustavo*] Petricioli, who was the finance minister, now the ambassador, came and said, “Would you be willing to put a lot of money on some policy reforms, and we'll tell you what we want to do?” They said,

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“We will tell you what we want to do.”

And so I think that was the maturing of the process. When you talk to the Mexicans—and I’m sure you will or have—they will say that, A, it was their program, but that our contribution was to give them other angles, give them our best experts as partners for discussion.

LEWIS: Very often one talks about this kind of intervention, and it's almost—it's a bromide to say that you never can move a whole government that's resisting, that the game is to try to strengthen the hand of the good guys when there's a big debate going on within the government. But I don't know--if Richard does--this government at all in Mexico, but it sounds as if it's almost monolithic, that it does not have that much sort of ideological differences within it.

STECKHAN: No, I don't think it's monolithic at all, no.

LEWIS: It isn't? So did you have that effect, then, of strengthening some hands with this?

STECKHAN: Certainly not—certainly not clearly. Let me explain: the Mexican government is a mix and composite of all kinds of forces. I would call one part of the force old caciques, party hacks with a standing with a part of whatever--we don't always know. That's one group. Then you have technocrats, like the minister of finance, [*Pedro*] Aspe and others, [*Ernesto*] Zedillo, minister of education and like that, [*Carlos*] Salinas, who was a technocrat until he became president, clearly. And then you have some special interests, whatever they may be. Party hacks, I would put people like--Richard will know better--but I would put people like [*Carlos*] Hank Gonzalez, the professor who is minister of agriculture, was mayor, who was governor. But these are not stupid people. They are people that come from the old part of the establishment, the PRI [*Partido Revolucionario Institucional*] and so on. And I'm sure there are better examples.

But our contacts with Mexico when I came were very clearly regulated. I was only allowed to talk to Finance. I mean, little things. I wanted to talk to the minister for planning whose name happened to be [*Carlos*] Salinas. So I said to the director in charge of plans, I said, “Can we set up a meeting with Salinas?”

And the answer was, “It would not be possible.”

So I set it up myself! Had an hour with Salinas. Then I went back to the guy who's now [*inaudible*], Flores was the director then, I said, “Jose Luis, I just wanted to brief you. I met with Salinas. We talked about these things, really just comparing notes.”

That guy was livid, and--this is off the record--but later tried to get me out of my job because I had stepped over a boundary.

I couldn't see the private sector at times. Sometimes they accepted it. Once there was a

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fight between Monterrey and Mexico, so I said, “Fine,” because the vice-minister of finance said to me, “Look, we’re friends, but we have a Mexican way of settling this fight. We have to settle it first—bajo la Solana [*phonetic*]-in the family and then you can talk to them.” So I respected that.

Shahid Husain, when he came, said, “I want to see the private sector.”

I said, “Careful. Let me check.” And I said, “Well, this is not the right moment.”

He said, “What do you mean? Just take me!” He was furious, but he accepted it. There was a long tradition.

Now, that has virtually disappeared. There are still traces of it, A, because they themselves have seen that broadening our contacts with other ministries was to the benefit of Mexico, and, B, I think because they have become more enlightened, the technocrats have taken over, the Zedillos and Aspés and Salinas and Miguel Mancera. That’s a more enlightened attitude. But I’m just telling you, culturally, originally, we had just [*inaudible*]

LEWIS: De la Madrid, was he very much involved in . . .

STECKHAN: I think at the beginning he wasn’t sure he wanted to do that.

Even on their side the issue originally was a 16 percent or 15.9 percent deficit as a [*inaudible*] and what we had to do, which of course was fostered by the IMF, cut it back, so they cut it back quite successfully. And then in late ‘84 and early ‘85 they prepared the campaign for midterm elections in June or July of ‘85, and they let the reins slip a little and so it blew up again. But it had one added benefit, I think. They saw that it wasn’t everything, that this kind of thing even—if you think the problem is just stepping on the brakes, getting the budget down, budget deficit down, it doesn’t answer the question. And I think in this process of slipping, making mistakes, they realized there was a deeper underlying issue.

Then came the earthquake, I think, in September also of ‘85. That shook them because—not because it was an earthquake and not because people died, but they also saw--some horrible stories came out of these seamstresses that were in a building that collapsed that were exploited, so they realized they had to modernize society. These were sweatshops. And people, I think, under the impact of this, plus this slippage in the political side also gave the impression that more needed to be done. And de la Madrid, I would say at least for his last three years, was a partisan of this and a supporter. And his greatest deed was probably to pick Salinas. That was his decision.

KAPUR: What was the role of the U.S. Treasury? How was the relationship between the Bank, Fund and Treasury?

STECKHAN: Well, on all levels and very forceful. And they had the most curious way

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of operating. Have you talked to Ernie?

KAPUR: Well, I went through his files, the chron files.

STECKHAN: Well, this is *[inaudible]*

KAPUR: What was amazing is that almost half the chron files in those years have Mexico. All other countries, all other borrowers of the Bank . .

STECKHAN: Sure, that's exactly what the Mexicans feared, in a way. [laughter] And I think the fear I wouldn't say evaporated, but was *[inaudible]* from the fact that, A, the U.S. action was really quite helpful to them because the U.S. action was also an action to protect the banks because they had this exposure in those countries, and, B, our role, I don't--while they knew there was close collaboration, it wasn't slavish following or collusion.

And I'll give you one example: that's the steel sector loan, whenever it was, partly an adjustment loan, structural adjustment, *[inaudible]* relationship and partly investment loan. I still remember the meeting with then—I guess was the minister at the time, Aspe--said, "Look, we haven't made much progress on the functionality. We have to move a little more before we can take this to the Board *[of Executive Directors]*. *[inaudible]* American steel prices are under pressure and I'm not saying we'll cave in under this pressure, but we need to take a real good solid loan; otherwise, we don't have a lot to defend before the Board."

He looked at me almost angrily, and he said, "Look, Rainer, I want to tell you one thing. I'll do all the actions you say on the conditionality. But if ever this thing flops in your Board because of political pressure, the relationship between the Bank and Mexico is over." And he was very firm on this.

So he kept his word, took actions that we thought was necessary, and we got it through the Board with a lot of maneuvering. But I think that established also our credibility and a certain degree of autonomy vis-a-vis the U.S., which was the most vocal on the steel side. But it wasn't just the U.S.; it was Germany, Italy, but they don't know sometimes how to be vocal. So we felt more heat from here and less from Europe.

LEWIS: The pressure in this case was essentially a protectionist pressure?

STECKHAN: Sure. Not to make the steel loan.

WEBB: This was quite late in the day, wasn't it?

KAPUR: '86-'87.

STECKHAN: Yeah. It was the last year of de la Madrid.

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KAPUR: In fact the World--in the case of Mexico--you had negotiated three loans for steel for India and major restructuring. That was canned after the whole *[inaudible]*

STECKHAN: It may very well be. But we invested time and effort and dialogue in neutralizing whatever flack was coming out of the U.S.

LEWIS: And you would deal with people in Treasury about that?

STECKHAN: Everybody at various levels. Ernie would deal with it. I would deal with it. We would send through somebody like—well, the public affairs department would send somebody to the Hill to talk to one or two staffers up to the Senators, at all levels. You know, it's a myth that you cannot talk to anybody in town about the U.S. *[inaudible]* investment.

LEWIS: It's a myth, you say?

STECKHAN: Yeah, because we do. You either tell the guy not to tell the ED *[Executive Director]*, or we tell the foreign ED to let us do what *[inaudible]*. But the law is very clear.

And it's not limited to the U.S. I mean, the Japanese are worse.

LEWIS: Richard, you've probably got to have a lot of questions. I just got one follow-up question, and then I'll shut up for a while. About the three, 500 million dollar loan business. '87, you said that was?

KAPUR: '87 to '88.

LEWIS: Yeah, in those same files there's something--Ernie by then has been moved sideways to the finance senior vice president. He was writing somebody, urging that loan shouldn't be given unless it contained--there was a business about post conditioning and ex-ante conditioning, and he was saying that there should be some forward, some further conditioning plugged into that or you wouldn't get anything out of the Mexicans. You remember that?

STECKHAN: No.

LEWIS: No. But this was mostly to take account of--as you said, they came and they said, "We're going to make some policy reforms, and here's our list."

STECKHAN: Yeah, and then we send the troops out. We had up to 55 people at one given point in time in Mexico to plow through their list with them, to change it—clearly it wasn't just their list, but that was the basis.

LEWIS: The three were like tranches or . . .

STECKHAN: No, no, no, no. They were tranced. I think they each had two tranches, 250 and 250. There was a change later because we used some of that money for the debt deal they struck, Mexico struck with the commercial banks. Now, you'll have to look at the record. I forget what it was in detail. There was on the one hand the 1.26 billion dollar--the largest loan ever at the Bank--1.26 billion dollar loan for interest support. And then there were set-asides under our then policy which we took partly out of this 500 million dollar loan, set-asides to buy the, you know, coupons that then would guarantee the *[inaudible]* to the banks. It was a very complex arrangement.

But that was formality. That is just financial flows and use of the funds. The conditions of the commitment of the funds was what you are talking about. It was a long negotiation, but it was a very friendly negotiation. It was not the acrimonious debate of the past had been, a thing of the past. But in the end we compromised a little here and there, and they compromised a little here and there. It was a different spirit.

And I think one instrument that has helped us and that we have had for eight years--soon after I came we put it into effect--was what we called "country strategy implementation review," a regular meeting almost religiously every six months between Mexico and ourselves to look not just at projects under execution, implementation review, not just as a pipeline of projects to be negotiated or raised but also at the relationship between the Country Assistance Strategy and the type of projects we were doing. So it was a broad, cooperative, regular view at our relationship. And that mechanism, first at the lower level only finance, later at the higher level always with a meeting with the minister of finance but also with other ministries represented, I think helped establish the fluid open dialogue with the authorities that helped greatly. It was well prepared. We always had project issues, systemic issues (say, procurement), but we also always had a confidential note of ten pages on the economy, how we saw it. That note first only got circulated to two people in the ministry of finance. Later it got circulated more widely.

But we tried to emphasize both policy bottlenecks, how to overcome them on the one hand, and then project lending originally, and later structural and sector adjustment lending.

I think that mechanism, which is probably more developed than anything else we've done in other countries, although quite a few situations we do it now in Africa, for instance, that has helped establish a broad-based relationship almost among--I was tempted to say academicians--but among people at the same level talking about issues, knowing that the political decisions would have to be taken in Mexico, and then we would look at that: was it sufficient or not and put money on it or not?

LEWIS: Those reviews were conducted here, or . . .

STECKHAN: Once here, once in Mexico.

WEBB: And this started about '84?

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STECKHAN: I think the first one was in late '83. I came in July. I think the first one was in late '83.

WEBB: Was the Bank doing this somewhere else?

STECKHAN: I don't know.

WEBB: Was it invented for Mexico?

STECKHAN: That was invented for Mexico. Now, whether we had previously done it somewhere else, maybe in Indonesia, I don't know.

KAPUR: But that was also—because I saw in Ernie Stern's files, he himself was taking an interest in that.

STECKHAN: No, Stern is later. Stern is later.

I think what you are referring to is letters to a person that Mr. [Moeen A.] Qureshi, who was then the senior vice president, called always "Excellency" and "Mr. Minister" and Ernie Stern called "Dear Gus." It's Gustavo Petricioli.

What we did was at the time it became clear there would be a deal between the commercial banks and Mexico, the question of burden sharing came up, burden sharing in the financial sense, how much money would come from the commercial banks, how much money would come from us and from the IADB [*Inter-American Development Bank*]. Now, all our money would not only be adjustment lending; it would also be disbursement under project loans. And so when Ernie and I went there, we agreed on a monthly letter—it wasn't a monthly letter, but almost—"Dear Gus." We prepared for Ernie on a monthly basis originally and then later a little later sloppy but largely in notes, a letter saying, "Dear Gus, on this project here we are. What's missing is that. It's in your court, then we can negotiate and get it to the Board. This project is suspended because . . ."

So it gave the minister of finance as a key person a clear idea of what needed to be done by who, the Bank or Mexico, to ensure a flow of funds. A flow of funds was important not just as a support of the balance of payments but also almost a condition of the deal with the commercial banks' burden sharing so that the commercial banks could say to their shareholders, "Yeah, you know, we're really reducing our exposure, and the Bank is increasing its exposure," which was true.

So--I'm sorry. To come back to your question, I think Ernie's personal interest as recorded is a little later.

KAPUR: What triggered that? I mean, how did that take, why was it . . .

STECKHAN: Well, at some stage--you'll have to look at the record; I would think it's

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'84--we started working on so-called "work-out papers" for Mexico which was a way of looking at their budget, at the balance of payments situation over a number of years, making certain assumptions, and then identifying a gap, and then linking the assumptions, what type of policy reform required to improve budget and balance of payments, with the type of financial contribution we could do. These work-out papers floated around the Bank for a number of years, and we certainly did it for Mexico and then for Chile we did it. It was a way of putting an intellectual underpinning on the type of conditionality one would like to see in order to do major fast-disbursing loans. I don't think it started before '84, but I think the records would be very clear on this.

WEBB: Mexico is--coming back to the special sense that Mexico—the sense that it was handled in a very special way, it sounds a bit like the Bank's relationship with India, part of the history of the Bank [*inaudible*] this almost rather deferential relationship with India.

STECKHAN: Oh, I don't think there is any comparison. I mean, we've never ever done in India until--what--two years ago any semblance of a serious policy dialogue backing it up with money, is my impression.

LEWIS: You did back in the '60s.

STECKHAN: But not backing it up with fast-disbursing loans. We had some import loans.

That's right--Bernie [*Bernard R.*] Bell was probably a phase where we had an intimate relationship. And I remember phone calls from India to the president of the World Bank, saying, "We would like to this. What do you think?" In that sense, yes. So I'll limit my statement. Past Bernie Bell I don't think--and I don't know much about the very deep cultural relationship.

We always had an emotional relationship with India; that is true. It's from the old days of the strong bilateral India-U.S. relationship. But I wouldn't say deferential is the right way of characterizing our relationship with Mexico, certainly not starting in '84. Before that, yeah, maybe.

WEBB: They were very cautious with [*inaudible*]

STECKHAN: Cautious, yes.

WEBB: Very respectful . . .

STECKHAN: Respectful? Look, the Mexicans have to be dealt with with respect; otherwise, they sack you. I would say almost any Latin American country you have a different tone of operations than we've worked in Africa. And that doesn't mean that we have been condescending to Africans, but it's been a different relationship--almost cultural. I wouldn't say "deferential." It is true that when Nicky [*Nicolas A.*] Barletta was

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here . .

WEBB: We haggled.

STECKHAN: Yeah, the interest rates were way below anything that was inflation or a sensible level of interest rates. So we haggled: could they go up by five percent or ten percent. It was a great victory: they went up by ten percent. There was still rampant inflation. And then it was no longer true. Nicky and I had just come back and said there was a great victory, and then he got a letter and said, “Well, you must be kidding. *[inaudible]* ten percent.” It was still celebrated as half of the Waterloo.

Yeah, in those days I wouldn't say deferential. It was just eclectic. It wasn't coherent, and it's not a criticism of Nicky. It's just--I mean, nobody really knew quite how to handle the situation.

LEWIS: What years were they?

STECKHAN: Well, this was, I guess, in the mid-'83, about the time I came. Also, with due respect to my colleagues, the type of economic work we did at the time was really *[inaudible]* not attacking *[inaudible]* but it wasn't really an intent *[inaudible]* And then we did less for some outside economists after that. If you'll recall *[inaudible]*

KAPUR: Did you recall a report by Peter Wright in '79 on the Bank's economic and sectoral work on Mexico?

STECKHAN: No, I don't. I've heard about it. *[inaudible]* It may have been. Peter Wright, I have the highest respect for his analytical abilities.

KAPUR: He basically said the Bank is a *[inaudible]* This is in '79 . .

STECKHAN: Okay. Confirms *[inaudible]*

Yeah, but '79? What was the frame of mind of people on Mexico in '79? There was a country that was soon to be a donor to IDA [*International Development Association*] and an emerging nation, graduating country.

It's a funny thing: last year Mexico started again applying for—started again this time applying for OECD [*Organization for Economic Cooperation and Development*] membership. It isn't your committee; it's another committee. There's this Frenchman who served there only for the last 35 years. I don't remember who it is.

LEWIS: Do you mean—oh . .

STECKHAN: It's an economic committee.

LEWIS: Yes, economic policy committee. It's always chaired by the American

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Chairman of the Council of Economic Advisors.

STECKHAN: No, then it's a different committee. It's a Frenchman who allegedly has been there for 35 or 350 years, I forget which.

LEWIS: Well, there was a Frenchman, of course, [*Jean-Claude*] Paye. .

STECKHAN: No, not Paye.

LEWIS: He was the chairman of an important committee.

STECKHAN: It's the same person. Never mind. I went there because the Mexicans had asked me and commented on Mexico's problems. And Mexico did very well. I think we'll have another presentation, and there may be another hope of getting Mexico into this next club.

LEWIS: In my time there was quite a lot of talk about Mexico joining up in some kind of associate membership in the steel committee. Bob [*Robert D.*] Hormats was the chairman of that, and Mexico was sort of thumbing its nose at the established powers on that one.

STECKHAN: But to come back to your comment, yes, there was very little influence. And I think we established the influence because there was a coincidence of thinking and there was a coincidence of training, the people like Aspe, the people like Jaime Serra, they came out of the same schools as some of our economists.

KAPUR: There was a piece in the *Financial Times*, do you remember?

STECKHAN: Very well. Very well.

KAPUR: Six months back which had this informal relationship it seems [both speaking at once]

STECKHAN: Yes, I think it's a very good description; it's a very good description.

KAPUR: Guy Pfeffermann said that often you look at the facts that all of them have gringo wives; that makes a difference. It's half in jest.

STECKHAN: Well, it's not true. It's not true. Only Jaime Serra has an American wife. Aspe doesn't. Salinas doesn't. De la Madrid doesn't. Mansera doesn't.

LEWIS: Manuel Camacho Solis does.

STECKHAN: Yeah, but he was not . . .

Zedillo, I've never met Mrs. Zedillo but I'd be surprised if she was American. No, no.

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This is Solis, who was a friend of Guy's. Jaime Serra, I don't think he knows. It's too facile. *[Laughter]* [both speaking at once] I know. I know. I respect Guy. He has a lot of insights, just for cracking jokes.

But there was a gringo connection in the sense that the key people were all not just graduates of top schools but sometimes also teachers at top U.S. schools, and that--only for once in the record of international cooperation--excludes Princeton, and nobody comes from Princeton.

LEWIS: Oh, Manuel Camacho does.

WEBB: Where would you put him in your classification?

STECKHAN: Good question. He has had jobs where he was a technocrat, say vice minister of *Comercio*. His image now, his job as *regente*--as mayor--of Mexico City, he's clearly the other way. It is a political deal, a person that can go and negotiate a deal with strikers or with angry students or you name it. So the betting today would be if the economy is doing well, Aspe will make it. If the issue is the PRI and issues of how far can you open up the party in addition to opening up the economy, and if that's the problem somebody like Camacho or *[Luis Donald]* Colosio would be the candidate because they have more experience. Their closer to the people, have more experience in successful negotiations, and they have a cleaner PRI record than a man like Aspe who has, creates the impression of aloofness, intellectual *intelligencia* through his connections of *[inaudible]* of the West. *[inaudible]*

WEBB: Who would you choose for president?

STECKHAN: Aspe.

WEBB: You don't think there's a need to consolidate right now, politically, to deal with possible reactions?

STECKHAN: It wouldn't call it consolidating. I think there's a need to modernize the PRI and to open up the system. I think Salinas, who I knew would not become president, has done that quite cleverly because he opened up an alliance with the PAN *[Partido Acción Nacional]*. The PAN is divided; the PAN is center-right. But the Salinas program is almost the program of the one, the major PAN wing, and so he doesn't have to worry anymore about what they do. But that needs to be continued, on the one hand.

And the other area is decentralization, strengthening the states and the municipalities so that you get at the poor. It's nice to say that you have *solidaridad*, which probably works, this is the anti-poverty program which only works when you can be sure that the money gets to the people, and that you cannot handle for Mexico. And they know they can't *[inaudible]* strengthen, and that's what they're doing in education, strengthening the municipalities, which almost by implication also means opening up the political process because once you give money to the municipalities, once you make sure that also

indigenous--be they Mayan, Aztec and whatnot descendants--have a way of accessing that money through special funds. I think with money comes a desire to have more of a say in political decision-making.

LEWIS: The poor in this case being urban poor?

STECKHAN: No, *solidaridad* is more a rural thing. Our analysis is that most of the poor are still in rural areas and that despite all the poverty in the slums in Mexico City, there's still a great attraction to come to Mexico because of greater facilities, you know, education, health and so on.

LEWIS: Did you give quite a lot of attention to agricultural or rural problems during your . .

STECKHAN: Yeah, yeah. When I came I thought we had to respect—maybe that's the direction--three taboos in Mexico: one was public ownership of the banks, one was PEMEX, and the one was the feudal system. I think I was right on the banks. They did the privatization without consulting us. It went to a point that when an unnamed high official--I was in Mexico City--called me, an unnamed high official of the World Bank called me in Mexico City and he said, "I hear they're privatizing the banks. Look, let's offer them help and then put money on it."

I said, "I don't think that's a good idea."

He said, "I think it is." So that person called up Aspe and said, "Pedro, congratulations, and we're happy to base a loan on that."

Aspe apparently almost died. He said, "I don't want you at all in this. This is a Mexican decision." It all reflected the sensitivity of the issue. So I think I was right on this.

On PEMEX we're still worlds apart.

On *ejidos* I was wrong. The Mexican government came to us in the end and said, "What would you think if we were to privatize? What would it mean? What should we look at?"

So in response to your question, yes, we have not only been in agriculture with some lines of credit which have a doubtful effect, but we have been lending and advising on science and technology in agriculture, extension service, and also on land holding systems. Now we are advising Mexico—at their request—on the implications of NAFTA [*North American Free Trade Agreement*] for agriculture in general and maize farmers (there's only two to three million of them) in particular. So we are very much in it, but it's not much on the record and I hope none of the notes we have written ever get in the Bank record. It's very low-key.

WEBB: I'm not sure this is right, but I have a sense that the Bank is less aid coordination in Mexico than it does in many Asian and African countries.

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STECKHAN: Then it is?

WEBB: In many Asian and African countries.

STECKHAN: Well, there's very little aid that goes to coordinate. I mean, what aid is there to coordinate? Some technical assistance as we did in the Mexico anti-air pollution project, especially from the U.S., a little from Germany, a little from France. Financially, it's only ex-im [*export-import*] bank financing, from Japan, from the U.S., and there was a little coordination, that's true. I mean, the Japanese did co-finance with us, and part and parcel of this package was also a very substantial loan from Ex-Im Bank. OECF [*Overseas Economic Cooperation Fund*] does depend on the World Bank. Funnily enough, OECF is the Japanese aid agency and it is for the poorer countries. OECF is in Mexico but only for pollution purposes, agricultural purposes. So that we have coordinated. But there is no aid. There's no German aid, there's no European aid, there's no Canadian aid to speak of, there's no U.S. aid surely except Ex-Im Bank loans. And so the only aid in the traditional sense you get is OECF.

[End Tape 1, Side A]

[Begin Tape 1, Side B]

WEBB: Of course, the other is the Fund. You haven't had any of the apparent frictions that you had in a lot of countries.

STECKHAN: We've had a very good relationship with the Fund, first-class. We've seen eye-to-eye with the Fund on almost every issue. It's not been a relationship a la Brazil or a la Argentina or a la Honduras, to coordinate [*inaudible*]

WEBB: Why has that been? An accident? Persons?

STECKHAN: They had good people; we got along well. We made a special effort; they made a special effort.

KAPUR: I was wondering if you look at Mexican [*inaudible*] policy dialogue. In Greenwood and Rall [*phonetic*] enormous political [*inaudible*] subsidy costs and [*inaudible*] costs. How do you see the tension between conditionality and ownership? I mean, it varies. The Bank always said, you know, if you have ownership that's the best thing and things work, but if you have ownership, why do you need conditionality?

STECKHAN: Well, the truth is, at least starting with '85, I see no tension.

KAPUR: No, why the need for all these, all the conditionalities, if a country has taken ownership of the program?

STECKHAN: Well, you look at the Board papers, and you'll find that a lot of the measures, so-called conditionality, were taken before we went to the Board. And the

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second tranche conditions were things they wanted to do that we felt were right. But you also look at these things, whether it's the PERTEMEX loan, the fertilizer loan, the steel loan or, as I mentioned before, the TPL. They went beyond what was agreed to. Why? Not because we imposed it in the beginning but because both of us started a process which had its own dynamics, and both sides were convinced that more needed to be done, and the Mexicans did when it was feasible. So I don't think ownership was an issue.

KAPUR: No, but then the point is, given that as you said there was ownership on the Mexico side, what purpose do conditionalities serve?

STECKHAN: Well, I guess in any proper lending business you need a record. We're not in the business of writing checks. We're in the business of either strengthening institutions or making a financial contribution, but in a particular situation. And so quite honestly it's a little an overstatement. I think the conditionality was for the record.

LEWIS: There's also a difference between conditions you build into a project loan where it has to do with the performance of the loan and the policy conditionality.

STECKHAN: Oh, yeah.

LEWIS: And what I think I hear you saying about the policy is that once you got this ownership established and you're on the same sort of wave length, that--I think I hear you saying that the policy conditionality was, almost could be called cosmetic, that is, it was partly for the sake of the Board. We've seen this in a case . .

STECKHAN: I didn't say that. I just said that was for the record. I don't want you to write that it was for the sake of the Board.

LEWIS: All right. But we've seen that in the case of Indonesia, for instance, that the Board got very agitated when the SAL came in, and then—and it's also a matter of sort of uniformity across a set of different clients.

STECKHAN: That's right, John. I make one qualification. I think there was no question on the substance. There was no question on the--by "question" I mean no divergence on the substance, no divergence on the plus, no divergence on the objectives of the targets. We left the government pretty much decisions on when, the timing, the political feasibility, which didn't mean that we were up against it and said, you just do it *[inaudible]* general track. Occasionally we withheld a loan until they were able to take certain decisions. So the timing was very much an area where I personally felt incompetent because--I don't think anybody else in the Bank understood completely the Mexican set-up *[inaudible]* And so that we left to the Mexicans, of course with an understanding that if key things had to wait, we would wait, you know?

It's a little parallel track or dual track—or whatever you call it--in Indonesia. You know, you said, "You guys, you move with the policy, and we move with the loans, not necessarily always in parallel, but if you get that far, we want to be that far, but we don't

to be that far if you're with the policies still here." That kind of a system also.

WEBB: The thing is you had enough things, things where a positive change was coming that you were able to provide *[inaudible]*

STECKHAN: And the incentives were in the right direction. Once Mexico had decided to settle with the banks, there was an incentive to show that the IFIs *[international financial institutions]* would come in for money, and I was the driving force. And so they were trying whatever they could to meet conditionality targets in time because they were eager to get the money. But they also knew--and I think they respected us--that we would not come in with the money at any price, any price meaning even if there was no conditionality. The main reason we established a track record in this: our first policy discussions were--looks now like a silly instrument *[inaudible]* agreement--which was an attempt, lawyer's attempt, over time to cut out generalized subsidies, especially in the rural areas. And so with the CSIR every six months we looked at the record and then we looked at the agreements and said everything *[inaudible]* so much.

Now, occasionally they would *[inaudible]* And then the question arose should we suspend. Of course they said, "No, keep disbursing; we'll catch up."

And we said no. But it's not in the record. What we said is, "Fine, fellows, we don't want a confrontation. Just be sure not to submit disbursement applications until you've met your targets." And we did that twice.

Then there was fiscal *[inaudible]* And I still remember another friend, Jose Luis Flores, who was head of international affairs at Finance, who said, "Oh, *[inaudible]* conditionality; this is the second conditionality for this loan, but it's due. Why don't you go to the Board and then we'll catch up."

And I hadn't slept well for a long time, so I said, "Jose Luis, if you're not in a rush, we can go in September or we can go at Christmas, whenever you say, but we're not going to move in June *[inaudible]* conditions."

They wouldn't believe that. They just sat on the thing. And I think that kind of a gesture--I'm not saying it was the only one; there were a couple of them, but it was backed up, was backed up by our top management—it helped them see that both sides had to honor certain things. And that helped.

But, you know, as always we only think in terms of the president of the republic and the minister of finance, but in a well-organized administration in Mexico is such an *[inaudible]* The key decisions are made by the working level: director generals and directors and even the vice-minister. So you have to establish credibility and trust at that level first, because they will filter to the ministry and recommend *[inaudible]* course of action.

But I think we were helped by the fact that Mexico does have a good administration. It's

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relatively good, other countries in Latin America that has type of quality of administration. Chile is much smaller [inaudible] administration. Costa Rica is even smaller, has a fairly good administration [inaudible] Mexico is a huge country.

And the more I think about adjustment, the more I think in terms of doing executions. You know, with due respect, Richard, adjustment in Peru is a miracle. I mean, what the president does. When you look at the human infrastructure, it's not there.

WEBB: It's been de facto adjustment.

STECKHAN: Yeah, it's not there. I'll never forget—you may have been in power at the time--I came here in September of '83. We negotiated with Peru a structural adjustment loan. Elegant, intelligent, competent minister of finance, who spoke the jargon and we loved. I still remember the presentation that the division chief made to Stern. And Stern was impressed and I was even more impressed since I didn't know a thing about Peru. So we went ahead and negotiated this loan. It was all there. The minister goes back. The next day he calls up and says, "It's all gone. The president has not approved it." What was it? There was no process of *entendence*, in a sense. The minister negotiated what he thought was right for the country and we felt was right for the country, but *las forces vivas*, the real weights in society were not consulted, were not in touch with the minister, and the then president, the *arquitecto*, just said no.

LEWIS: You must remember that.

WEBB: Very well. We had a minister who went over here, but he was on the airplane most of his year in office, so he wasn't in touch at all with what was going on really.

STECKHAN: With the people and the parties and--sure. And for me it was an eye-opener. It's the see other side. And Mexico, you know these guys come to Washington, and don't speak beautifully unless it's been checked with a number of people, not just in government but the party. You don't know how they do it. You don't know with who they talk. You don't try to find out because it's too hard. But you know they represent something that they then can sell at home. In Peru that's not the case. [inaudible]

WEBB: Now, governance has a lot to do with this.

STECKHAN: Yes. But what does it mean, "governance"? Are you saying that the Mexico of '85 was a better democracy than the Peru of '83?

WEBB: Well, I--Peru really became democratic in . . .

STECKHAN: You're not answering the question! [laughter]

WEBB: What I'm saying was . . .

STECKHAN: Did you think there was a better system of governance in Peru,

governance meaning participation by various forces of society in decision-making?
Mexico versus Peru? [both speaking at once]

WEBB: My answer is yes, I think Mexico had a better government, no question.

STECKHAN: Oh, a better government. No, that's something else. I mean "governance" in terms of participation of forces inside and outside government in decision-making.

WEBB: I mean all of that.

STECKHAN: All of that.

WEBB: I mean governance . .

STECKHAN: Well, you know better. I won't argue with you.

WEBB: You don't see it that way?

STECKHAN: I think that Mexico in '85 was anything but a participatory regime.

Now, I cannot judge the Peru of '83. I don't know to what extent the *arquitecto* checks with the armed forces checks with an opposition party. I don't know. But he sure as heck had a feel for what was saleable and what was not.

WEBB: In Mexico?

STECKHAN: No, the *arquitecto* in Peru. Because otherwise you wouldn't have dropped the SAL. I think what we negotiated was not feasible. Now [*inaudible*] don't know.

WEBB: Yeah, that's right.

KAPUR: To imply that--that's all process of sort of a process of consensus-building was very crucial. I mean, how it was done was . .

STECKHAN: Definitely. Just look at what they did starting in '87 with the factorial basing, as it's called now. They themselves felt it was necessary.

Israel in '85 consulted with the trade unions and struck a deal before they, you know, went into unbelievable adjustment.

KAPUR: But how can you compare that with the Bank's supposed prescription in East Europe to, say, sort of shock therapy.

STECKHAN: Don't ask me! I think we are building a disaster. Don't ask me. I am scared stiff. I think everything that's happened in Eastern Europe—bar Hungary and the Czechs and maybe Poland is just leading to disaster, chaos or civil war. We are lucky if

they don't use their little atom bombs. It's scary. It's not a lack of finance. It's a lack of people that know what they're talking about. It's a lack of institutional, Western style—and the people aren't prepared. And whom do you consult with in a disintegrating, ex-Soviet Union? You don't even know whom to consult with. At least that Mexico—the PRI may be losing power, but the Mexican president knows exactly who he has to consult and there are mechanisms to bail in opposition parties, partly bribing but partly just selling it in terms of their own interest.

LEWIS: You know you've been saying here that the character of the regime and knowing the regime and understanding it is terribly important for effective transactions.

STECKHAN: Yeah. Sure.

LEWIS: And it sounds as if the things were going pretty darned well in the Mexican case. In the Eastern European case it sounds as if they—we, I think, probably share your prejudices—I think don't sound like they're going too darned well. Where is this sort of center of gravity in terms of political savvy in the Bank? I mean, is it--it almost seems a random thing of how the Bank comes to deal with different kinds of regimes. It is a function partly of personalities, who's in what spot when. There isn't very much doctrine, is there?

STECKHAN: I can subscribe to everything you say. I was going to say that not everything that we do is susceptible to analysis, to mathematics, to indices . .

[Interruption]

STECKHAN: . . that is intuition, that is trust.

[Interruption]

STECKHAN: . . political risk analysis. We did not do an analysis of the decision-making process in Mexico or in Chile or in Costa Rica, the countries that I have been associated with, among others. We discussed these things. We had an intuitive consensus among those that worked on Chile that Chile was, yes, there was a dictatorship, but our feeling was that the dictator left his economists, I mean, enough of a leash. And our clear impression was that people like *[inaudible]* and others were the right kind of people that you could deal with, and because of the relationship of (whatever it was) trust by Pinochet, they could sell him certain things.

So there wasn't a scientific attempt at gauging—in fact, I blocked an attempt by some people to do an analysis of decision-making in Mexico because it was election time *[inaudible]* Would we have done better, if we had done this work? I'm . .

WEBB: Would you have hired more lawyers?

KAPUR: Or diplomatic . . .

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STECKHAN: These are all necessary elements. Lawyers means in terms of putting things in categories and diplomats in terms of trying to sell something. I think these are necessary ingredients. Not every place is--don't get me wrong. Nothing replaces the rigor of analysis, especially development analysis, but once--my great, great experience of Princeton, where I was for five months, was I met a professor who created the most wonderful models, not all of them I understood. But at the end he said, "Look, there are only three questions for a solution: Does it fit the model? Does it fit with your intuition? And are there true facts to support it?" And I liked that juxtaposition. So there is rigor analysis on the basis of the models based on experience. There's also intuition; there's also an attempt to get at facts. So you need the analysts, you need the science from the diplomats, you need the lawyer who looks at administrative systems. Don't block out intuition and just trust between people.

WEBB: I was really thinking of intuition to the extent that it's a skill that can be developed, in that lawyers, it's really part of their—you get a sense of another person's power . . .

STECKHAN: Yeah, oh, in that sense, sure.

WEBB: . . . where there's room for negotiation.

STECKHAN: Yeah. Since we're putting everybody in boxes, all I'm trying to say is just because you hire more lawyers you don't necessarily need more [*inaudible*] skill. You get some very—I started out as a lawyer. My father, who was a lawyer, always said jokingly, "Never avoid a fight because that's where the money is." And a lot of the training of the lawyer is just that: go for the jugular. That's what you get paid for.

KAPUR: Did it matter that in your case, which is quite rare in the Bank, that you were in one country for that long a time? What is amazing to the Bank that the intuition which you are, for instance, takes time to develop about particular—how, given the frequency of changes, how do you develop that?

STECKHAN: It helped a lot. I mean, I still look with amazement at some of the things I signed in my first year. I had no idea what I was signing, none whatsoever. I was lucky because I had the most able collaborators and colleagues at my side. Just--I shudder at thinking that some idiot would have do with something I signed. So I was very--in fact, I've always been fortunate, and maybe that what's lawyers are good for. They are lazy by nature. I've always been very fortunate to have excellent collaborators, but it really matters that I've worked for nine years on Central America and for nine years on Mexico and for five years on Chile. You establish a relationship, that feel, and it isn't the same generation you started out with, but you understand what these guys that came before thought and why this new group is better or worse, surely, surely.

WEBB: Was that an accident?

STECKHAN: Yeah! Completely. I mean, I've always enjoyed myself here, so I've never been very eager to get out of this, and what happens as of January 1 was not my doing. On the other hand, I accepted. I think that now it is the time to move, as Mexico goes into an election mode and most of Central America does. Now is the time to bail out. It's also a good time *[inaudible]*

WEBB: You are inheriting two really big *[inaudible]* challenges.

STECKHAN: Oh, yeah. They gave me the best, right. [laughter] But I wanted it; I said something. I wanted it.

Amongst ourselves, they offered me something in the Asia that probably nobody would turn down, but I wasn't interested because I felt more at ease with the Latin American scene, and I thought it would be in the interest of the Bank to build on that, rather than import somebody who's worked for many years in Africa or in Eastern Europe or whatever. There's no racist tones in this. It's just a certain familiarity with how you do business. Which is not to say we shouldn't locate people. I mean, the Bank is only a World Bank if we have people with worldwide experience. That's for sure.

LEWIS: But the pace may be too fast in many cases, right?

STECKHAN: Or at least if you do it intelligently, you let a director sit for a long time and then change the division chiefs. My division chiefs, some have changed very rapidly on Mexico, all on promotion, but it has been possible for us. Or you do it differently. You change the director more rapidly but then you have an infrastructure with the same solidarity. *[inaudible]*

LEWIS: I think that you've got something . .

STECKHAN: Yeah, my supreme warlord, Mr. Husain, has been calling. [laughter]

LEWIS: Oh, I see. Right.

[End of Tape 1, Side B]

[End of interview]