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Transcript of interview with

MARCELO SELOWSKY

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Interview by: 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.

[Begin Tape 1, Side A][1]

SELOWSKY: You might elaborate a little bit when you discuss overall policies or the fiscal sector and all that, but clearly when you talk about Latin America, because it seems to me that at least since we have been here, since '87, there have been some interesting change of emphasis of the way we should look at Latin America in the sense that we came to the realization that we have to sort of look first and most thoroughly to the fiscal sector, to the public sectors, and I call this "fiscal first." It seems to me in the past--and this is the sort of full qualitative change that I think is happening in the way we looked at Latin America, but I'm sure this is also relevant to other regions--is that in the past it seems to me that the Bank was lending credit lines for agriculture, infrastructure, ports, roads, while at the same time, you know, a country was going through a lot of fiscal disequilibrium and inflation, et cetera, okay?

The way it happened in many Latin American countries, we had a lot of reversals. A lot of those measures had to be reversed as inflation and fiscal disequilibria increased, okay? That it didn't have much sense to have a trade reform if you had 200 percent inflation or to try to deregulate a financial sector while at the same time the government was struggling to finance its deficit and was trying to impose . .

[Pause to request *Finance and Development* from June of last year, "the grey one," in which Selowsky has an article]

SELOWSKY: In the sense that, you know, it didn't have much sense to deregulate the financial sector at the same time the government was trying to get resources by placing reserve requirements on commercial banks in order to finance its deficit or pay low interest rates on domestic resources in order to minimize the financial cost of its borrowing, and that--we came to the realization that first you have to really hit the public sector in the sense that you have to support reduction in the public deficit with strong institutional measures so that the public sector--you could assure that that deficit would remain low and therefore complement it with good tax reform, with good privatization, et cetera, okay? Because if you try to reform very quickly, the private sector is not going to react to trade reform because if I'm an exporter and the fiscal situation is not still being solved with good, sustainable measures, I'm not going to react to a reduction in export taxes. I will imagine that in two years from now in the first presidential election or municipal election the fiscal situation is going to go to hell again, and I know they are going to reimpose again, okay? And even the financial sector again is not going to trust any deregulation if they think that again in the next election when the fiscal situation goes out of hand they're going to reimpose mandatory reserve requirements, et cetera, okay?

And I think this is an important qualitative change, I think, at least in the history of the Bank with respect to Latin America, that we came to the realization that at the center we had to really look into the fiscal situation and the role of the state, okay? And that was sort of the first requirement before we go into other sectors, before getting involved in

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

lending directly in terms of credit lines to different sectors, to the financial sector or agriculture. If we didn't bring down the long-term determinants of the deficits, reforms on relative prices will not trigger supply response of the private sector because everything is dominated by the macro instability again, okay? And that's something I think relatively new and difficult because it meant we have to get involved in public enterprises and reduction of public employment and very difficult things that in the Bank in the past we didn't have instruments, or the fact that we have also adjustment lending to make things easier, okay? So this "fiscal first" approach, I think, at least in Latin America, I think was an important qualitative change, I think, in the history of the Bank as far as Latin America is concerned, okay?

Now, I'm making this parenthesis; I don't know if you want to *[inaudible]* but I think it is very important.

[Pause to discuss documents and have copies made]

SELOWSKY: I want to make a parentheses because I think this is an important . .

WEBB: Just a footnote. Is there a . .

SELOWSKY: This is what I have elaborated there a little bit. I mean, this is sort of . .

WEBB: Is there is a written account of what has actually been done over the past fifteen years on--I mean, somewhere we could go and look at the . .

SELOWSKY: Yeah. I'm going to give you Shahid's *[Husain]* speeches to the Board *[of Executive Directors]*.

WEBB: For instance, where have you helped with reductions in public administration?

[There is a simultaneous discussion of copying going on throughout part of this section.]

SELOWSKY: I'm going to give you something that ultimately went to the Board. But I think this is an interesting story . .

WEBB: Yeah.

SELOWSKY: . . okay, which I think is the correct one, okay, but I think if I were writing something on the, a little bit of the Bank, at least as far as Latin America is concerned, I would discuss that. It think it's an important . .

WEBB: Is this general in the Bank, do you think, or is it special in Latin America?

SELOWSKY: That I don't know, okay? In Latin America it is important because the macroeconomic instability has been so important, right? And the issue was, "Well, look. To recover growth we want to again have private investment." But there's no point to having trade reform, it's no point to manipulate or reform relative prices if your investment function is moving like that due to macroeconomic uncertainty. So it was sort of the obvious thing to--I mean, it's not also important to reduce the deficit today or tomorrow with measures that are not perceived as sustainable, okay? But it's sort of—that's the reason the qualitative aspects are so important. But we saw what happened in Argentina that they closed the deficit very quickly, but velocity was just like crazy because people didn't believe that things could be sustainable.

WEBB: Uh-huh.

SELOWSKY: For example, even to reduce the deficit by reducing public wages, public sector wages, the way to reduce it was reducing public employment. You see, if you have the public employment there standing like an employment burden, each ten percent increase in real wages blows your deficit, okay?

So if you would like to maybe—this isn't--and I'm going to try to get you some material. Okay?

WEBB: Yeah.

SELOWSKY: Based on Husain's speeches to the Board on this.

WEBB: You know, I wrote a note that had to do with the public sector in Peru and what's happened in the last few years. I'll send a copy to you.

SELOWSKY: I read it once, and we should talk about that. It has shrunk, really shrunk.

WEBB: Yeah.

SELOWSKY: Because of restrictions in revenues.

WEBB: Yeah.

SELOWSKY: But Peru may be the case, the reverse in the sense that in the last couple of—I mean . .

WEBB: Oh, you saw that note?

SELOWSKY: Yeah. Because of the revenue [both speaking at once]

WEBB: It was in the *[Carlos]* Peredes book.

SELOWSKY: No, I read something you wrote about three years ago in a magazine.

WEBB: Oh, I see. That was . .

SELOWSKY: But this is a parenthesis. So we can come back if you want, but I think it's something that you would like to pick out as a theme.

WEBB: You said there was more than one change in the approach to Latin America?

SELOWSKY: Well, I would say that--I would remind you that a major change in the sense that we came to the realization that if we didn't deal first with the public sector, first or at least simultaneously, reforms on markets wouldn't have any effect on the supply response of the private sector because always you will have this fiscal fire on top of you, okay? And we had to develop instruments and knowledge and know-how to do that. In Argentina where we have been lending, some of the other funds can be used to finance unemployment compensation of dismissed workers in the public sector. You know, this is something very new.

WEBB: When we talked to Shahid—I don't know; about six months ago or something like that—and we were talking about all the difficulties that there have been with respect to the adjustment programs . .

[Interruption; provides copies]

WEBB: . . he said, "Well, the thing is that we learned because now we see that we should have put much more attention on"--we talked about one or two things, but I remember him—I think what he was stressing was administrative, institutional changes. How has that been—that would be an interesting approach, right?

SELOWSKY: Yeah, well, this institution [both speaking at once]

WEBB: Just what does that mean?

SELOWSKY: That institution—well, it means . .

WEBB: Is that the same thing?

SELOWSKY: Well, they are related. This thing of the institutional emphasis through different ways in this story which I'm trying to describe, Richard. First of all, if you want to have sustained changes, or if you want to move to a sustained level of public finance that people can predict it over time, okay, people can be assured that each time there is an election public finances are not going to blow up, it means that for that you need a lot of institutional changes which are difficult and which we had to learn about how to sort of convince countries to move or to work with countries in (a) independence of central bank. In all countries we're trying sort of to have that enter our dialogue: How can we make the central banks more independent, okay?

WEBB: Steve *[Steven]* Webb is working on that.

SELOWSKY: Maybe. I don't know. Maybe. [both speaking at once] Is it a political economy reform? Is his research on political economy reform? [all speaking at once]

WEBB: Do you know Steve Webb?

KAPUR: That was Stephan Haggard that you were talking about.

SELOWSKY: I know that Steve Webb is working on a research on the political economy reform with several people . .

WEBB: Central bank independence.

SELOWSKY: And that is his topic?

WEBB: He talked--he interviewed me once. Recently he gave a seminar. I wasn't here for the seminar, so I don't know exactly . .

SELOWSKY: I don't know.

WEBB: You don't know?

SELOWSKY: But, well, good. We're on the same wave length, then, okay?

WEBB: Yes.

SELOWSKY: How to change the relationships between the different parts of the government and the central bank, you know, for example, the relationship between public banks and the central bank to make the transfers less easy, like in Argentina or something, you know. There was a lot of change in institutional relationships, okay? It has to do with the very deep institutional relationship and habits, the issues of how the provinces in countries like Brazil and Argentina manage the public finances, how soft is the budget constraint—the perception of how soft is the budget constraint. How can we change their behavior in such a way that they know that, look, not always a central bank is going to come at the last minute, okay? And how do you build in again rules of the game which has to do also with institutions, okay, in order to make more accountable the behavior, okay? How do we make, still in the context of, you know, public utilities, their behavior, the pricing rules of public utilities more automatic so that we don't have to sort of all the time go into sort of all the time, through discretional changes, you know, on the price of electricity or telephones? How do you make those sort of more automatic? What institutional mechanisms do you build in to bring in automaticity? How do you bring automaticity and better rules to the game so that you can assure fiscal sustainability over time, okay? So that's one level on where the institutions, I think, are very important.

The other--particularly in countries that go through stage one, I call it, the ones who are, you know--probably Peru, although Peru doesn't have as much a problem of expenditures; it's more a problem of revenue--but when you talk about Argentina and

Brazil and Nicaragua and Mexico regionally, countries who are in the middle of fiscal adjustments.

But the issue of institutions now also interests to other mechanisms now in countries who are a little more advanced in their adjustment, for example, like in Colombia, like Venezuela, that already have sort of reduced inflation but now, for example, they want to deregulate more, privatize, and then the issues of institutions come in as far as sort of how do you develop a regulatory framework? How do you put together a good prudential regulatory system, a modern one in the financial sector, okay? So these are sort of typical examples of—you know, in the process of privatizing and opening up and liberalizing, many times you need also a modern, more intervention of the state but in a modern fashion, you know, a prudential regulatory framework, a regulatory framework to make sure that we don't convert public monopolies into private monopolies when we privatize, okay.

So these are the aspects: improving the workings of the legal system, of contracting, the enforcement of contracts in countries like Uruguay and even in Bolivia. Still a large part, even sophisticated, you know, an advance country like Uruguay still—the problems in the private sector may relate with the lack of enforcement of contracts, okay? And that we don't know--the cost can be tremendous in terms of limiting investment or financial transactions when—I mean, we can liberalize the credit market, but still if enforcement of contracts is the main problem, it would be very hard to get a loan, right, from a bank. That’s the reason still the spreads and the risk payments are so high, okay? So in countries who are a little more advanced, it's a second generation of problems, okay. You liberalize and got rid of distortions, but still the legal and institutional system may still be a problem and a cost to the private sector. So these are examples, okay?

WEBB: Yeah.

SELOWSKY: So this is to generate issues, enter when we talk about the most sort of basic reforms regarding the state but also begin talking now with countries who are a little more advanced, okay? But these are examples.

WEBB: Yeah. So they're really all very closely together here, the institutional changes and the fiscal . .

SELOWSKY: Yeah. But can you see--at least in my view, what I thought that it was very important to understand is the following: For a long time it seems to me when I read your decision, you got the impression that at least some of the people who were working in the sectors, they were operating as if the constraint on growth was lack of funds or lack of financing, okay, in general, and there was a large emphasis on having credit lines for agriculture, for small farmers, to bring credit to a particular institution, you know, certain financial institutions there, housing bank, and the development bank, you know. This was sort of a little bit my view of the framework. But then it became obvious that the constraint on private investment was not lack of funds but simply the desire to invest due to an uncertainty. So there was no point of bringing credit lines in the country where you were having capital flight. Now, the constraint of private investment was not lack of funds, but simply that people didn't want to invest in a country because of the uncertainties. So first, in order to come to the same problem differently, so the problem was really to attack those forces or those areas that were hampering, impairing their desire to invest in the country.

WEBB: Yeah. Beginning with macro . .

SELOWSKY: Macro and rules of the game and predictability of incentives. And then really, when the demand for investment increases, then we can come with credit lines to sort of feed an increased demand for private investment credit, okay? But in the short run, that's a little in the short run, our emphasis should be and was adjustment operations to support institutional change in the public sector to reduce macroeconomic instability so that we could increase the desire to invest, okay? This is why I am a little bit—I mean this is sort of, in my view, implicitly the way we were operating, and I tried to write it down in that little blue book, in that blue article you have there.

WEBB: Yeah.

SELOWSKY: I call it stage one, two and three. Stage one, again, public finance, institutional changes and reforms in the incentive system, and then, okay, there's a recovery of the desire to invest, and then we come in with a . . .

It's a little bit of a--you describe maybe too much of a—"typological" might sound a little bit too. It's not "You have to do this first and this second," but what we have learned is that when you do certain things without doing other things first, they're going to be reversed. And I think this is something that--I think there was a sort of consistent approach that we had and maybe sort of something that is worth sort of elaborating. Anyhow.

WEBB: Okay. It really helps us to understand. I don't know why; I don't see much recent change, I just don't have a vision of it. [both speaking at once] It's not really written down; it's not clear.

SELOWSKY: If you look, for a long time the major theme, the major source of fear, the main vehicle of lending were what's called "credit lines" and credit to DFCs, development finance companies, large part, you know.

WEBB: Huge part.

SELOWSKY: Huge! But then we realized that many times (a) we could distort capital markets by doing that because, you know, if the interest rates are 15 and you come with a credit line of 8, to be, that goes to a particular subsector, you are improving the segmentation--I mean, you are adding to the segmentation of markets. And (b) we realized also that in many circumstances in Latin America the issue, the constraint on investment was not finance. The people wanted to finance; they wanted to invest, so the money was going abroad, and that we had first to improve the environment so that they desired to invest. So we moved to these reasons that were determining the macro instability.

Maybe I'm putting it too nicely, but I think we have moved. I mean, if you look at the actual lending and at actual strategies, maybe you should look at some of the strategy papers in the big countries, you know, which are sort of very instrument--papers of ten, fifteen pages, you know, like Argentina and the [both speaking at once]

WEBB: Okay. See a sequence of ten, fifteen years of strategy. Are they annual?

SELOWSKY: Every three years.

[Inaudible] It's logico; it’s sort of obvious, right? For me the problem of Latin America is to restore the desire to invest in Latin America, by their citizens and people from abroad. And then comes the issue of how to finance it, but we cannot go the other way around.

WEBB: I have always thought that way.

SELOWSKY: Yeah.

WEBB: I've always thought the policy change was more important than the lending of the Bank. The Bank did throw a good amount of money, to the extent that it has input.

SELOWSKY: Okay, you want to talk about poverty?

WEBB: Yeah. I thought, first of all, because you mentioned at lunch basic needs, you said you had a story on basic needs.

SELOWSKY: At lunch? Not me. Oh, the last time at lunch!

WEBB: When I met you with *[inaudible]*

SELOWSKY: Ah, I remember that time, yes.

WEBB: I mentioned poverty, and you said, “Ah, I will tell you about basic needs,” *[Paul P.]* Streeten or something.

SELOWSKY: Oh, okay. Well, let’s go back. Is this tape, is it to be between . . .

WEBB: If you want us to turn it off . . .

KAPUR: If you want, we'll get rid of it, but it's only for . . .

WEBB: We use this to make our own notes and then they're destroyed.

SELOWSKY: Look, I think--you want to go back in time?

WEBB: Late '60s?

SELOWSKY: Let me tell you the evolution of poverty.

WEBB: Yes, that's what I want.

SELOWSKY: I think that—I want to *[inaudible]* you know that the dynamics of the approach to poverty in the Bank was very sad, very, very childish for a long time. I think now, I think maybe again we are sort of getting a--in the sense that in the time of *[Robert S.]* McNamara there was this approach in which you could somehow like sort of—I saw--you have sort of the poor, and you can, with those integrated development programs, education, and you would pick sort of an area and you would load it with interventions to increase the earnings, without realizing that maybe some of this intervention could increase the earnings of these people but at a very low rate of return. I mean, if you put farmers in an area in which the rate of return to invest in water is minus ten, right, it's much better to invest in giving them education and let them then migrate, right?

So that there, you know, was a failure a little bit--I'm exaggerating a little, too--of something which you recognize that markets were interlinked, and maybe the best thing to improve poverty in area A is to deregulate policy so that the rich farmers in area B can invest more increases a month for labor and those people from area A could go to B. That there was interlinking of markets, and at the end the best way to improve policy was growth and for the rich farmers to invest more. Right? So that to peak the demand for labor, okay? So that it was the rural demand for labor that was crucial to improve poverty, right, instead of just overloading interventions in areas where the poor were and in which some of the investments could have had a very low rate of return, right? You get my point. Okay? And I was very much, okay . . .

And then Streeten came, and I mean he confused the things even more because he then started about this basic needs but on the supply side, I remember, okay, that the country had to produce consumer goods for the poor, I remember. Wasn't it something like that?

WEBB: Yeah, that was one of them, yeah.

SELOWSKY: Okay. He failed to see that, you know, that the issue was the issue of effective demand, that you cannot sort of plan the economy in terms of producing goods for the poor, you know. There's more to effective demand. What you have to do is again sort of to plan, I think, the economy in terms of producing goods for the poor instead of trying to say, "Look, you know, we want to reduce poverty in present value from a long-run point of view of this whole. We also want to be efficient, to increase growth and effective demand by the poor working because the earnings opportunities of the poor, and then they are going to consume more of those goods, because when you produce more of those goods, you may export them, but they are not going to be consumed by the poor."

So I remember it was a very sort of supply-driven, if I remember, okay? I remember I had a lot of discussions with them.

And another time—well, I'm sorry I have to bring my own stuff on this--but I remember that the other time I wrote this paper on basic needs and trade-offs. There was no trade-off, basically, between basic needs and growth.

I do not want to overwhelm you with my own propaganda, Richard, but I think at the time we discussed these things together and we tended to agree. You know, it was basically--it was trade that--to a large extent there were very many trade-offs. That means poverty and [inaudible--gone to find a paper]

WEBB: Was it a sort of basic needs working paper?

SELOWSKY: [inaudible] and I wrote it just to in response to that because I thought the Bank was really over—here it is.

You know, because he was reading this in such a way that you get the impression that there was an unsurpassable trade-off between poverty and efficiency and growth, that it was very difficult to achieve both, okay? And he did not--I think he brought a lot of confusion, okay, into the Bank. Very sad, I think, in my view, because he didn't provide a framework under which you could sort of say, "Look, in this area there is complementarities between poverty and efficiency, trade reform because of the demand for labor. But there might be some areas where we want to invest another two percent of GDP in infant nutrition, and that means in the short run ineffective growth but countries can afford that two percent and at least do it efficiently. He didn't put a framework in which I could discuss complementarities and trade-offs. I think that was a very sad story for the discussion of poverty in the Bank, to be very honest. [both speaking at once]

WEBB: No, I had left in '81. But this, you must have written this in '79 or something, '78?

SELOWSKY: I don't remember, I don't remember, but I did it just because the confusion was . . .

You know, people were so confused because it seems that development, growth, and good policies and poverty objectives were something completely--irreconcilable in English?

WEBB: Unreconcilable.

SELOWSKY: Okay. And there was no framework to empirically see whether that's correct or not or how could we put together a framework that we would be able to judge, okay?

WEBB: Do you have anything that updates this? No?

SELOWSKY: It's sort of obvious, Richard.

WEBB: You mean the point, speaking of the numbers?

SELOWSKY: You know what you say, you know, he never tried to say that it was—I mean I feel bad that I have to sort of talk about Streeten, but I think he was sort of a major guy in the sense that he didn't, I think, help to cross the bridges, okay, and say, "Well, look. Let's see if there are a lot of high rates of return in investment in the poor. So let's exploit that." I mean, if we can exploit that it's are still a lot of farms in which the irrigation can have 20 percent rates of return, education high rates of return, health and so forth, we can have our cake and leave it, and maybe still we have a lot of areas where we can have the cake and eat it.

WEBB: I remember this now. You thanked me [both speaking at once]

SELOWSKY: Did I?

WEBB: Yes.

SELOWSKY: I'm sure I did. And . . .

WEBB: And Constantino *[Lluch]*?

SELOWSKY: No, no, no. I remember that we discussed it many times.

So I think this latest *WDR [World Development Report]* of Lyn Squire is a very good . . . [both speaking at once]

WEBB: A good statement.

SELOWSKY: It's a good statement again of the fact that . .

WEBB: What do you think of this--Lyn's paper seems to suggest poverty conditionality, but when we talked to him, he refuses, not--when I went to Peru in 1980, one of the first things I thought of then was maybe a poverty SAL *[structural adjustment lending]*. SALs were just being invented, and I talked to whoever was leading this group in the Bank, and no one was very sure what SALs were limited to, and they thought, "Well, maybe a poverty SAL, that's plausible," a fund for social projects [both speaking at once]

SELOWSKY: That we can have, yes, yes.

WEBB: But that idea never developed. That SAL was shot down by McNamara for Peru, and in the Bank it never developed. And now it sounds as though with Lyn you are playing again with the idea, but again it doesn't seem to have developed.

SELOWSKY: Yeah, well, look, what we are trying to do is--well, it's hard to have a SAL. Well, one could have--let's talk about fast disbursement operations, okay, which means that in which the disbursement is unrelated to a physical project, right. This is a little different. You disburse [both speaking at once]

WEBB: I don't want to limit it to SALs. Program loans.

SELOWSKY: Yeah, a program loan. But, for example, you can have, on poverty there is nothing that prevents you to have a social sector adjustment loan in which you say, “Look, you know, we give to a country100 million dollars, but the government has to cost recovery in higher education, increase the subsidization of rural education, school feeding programs, begin to charge for curative urban health, and focus all the issues of . . .”

There's nothing that prevents that, okay? We haven't done it because maybe it's very difficult. I mean, you know we have been trying to get the cost recovery in higher education, and we have been failing. The governments say, “Look, we'll have a revolution next day in higher education.”

Now, we have been doing something a little more modest, and this is what I describe a little here a little bit which is in the following: In the context of SALs we have been trying to reach agreements on governments' allocation toward very, very targeted programs in the area of children, health, vaccination, nutrition. Okay? Which then are complemented also with investment projects to include the delivery system.

Now the issue is the following: that in many countries--and we learned that in Venezuela. For example, we had a very important Venezuela SAL about two years ago in which the government reallocated maybe about two percent of the GDP toward more targeted programs, okay? So the government was really very willing to reallocate, to cut the subsidization to meat and to fertilizer and to use that for vouchers for poor mothers, et cetera. But the problem is that many times even if you, in the context of a SAL, you reach an agreement for the governments to reallocate resources, what is--the bottlenecks are the delivery systems, because you can have the money there for school feeding, for vaccines, but you need the refrigerators. You need to train the nurses. You need the network of--well, you know that better than I do, Richard, right?

WEBB: We’re back to institutional changes.

SELOWSKY: Yeah, okay. So there’s a limit which is partly a function of the past. So even if you have a very decisive policymaker that really wants to reallocate he is going to see that the bottom--unless the money is wasted, you know, so we have to work *pari passu* with investment projects that improve the health system in terms of treatment and that is very, very slow, okay? But obviously I'm sure we could be more aggressive. People say, “Look, you know, why you paying so little to these people working for your sectors? Those guys should be motivated and should be the best people and should get the same salaries as the people working in central bank. You know. Anyhow.

But we have to back up then the reallocation for this sort, or we could try to influence through adjustment operations by things that will work on the delivery system. But these are very labor intensive, you know. It is poocha, you know, to put--you know, we have one person working on Nicaragua in social sectors. Can you imagine? I mean, Central America. I mean, now we are expanding our social human resources divisions, but in Central America you have so many people, so many countries and difficult ones, you need at least five, six, ten people per country, right, if you want to do a good job.

KAPUR: This was in ’88 *[inaudible]* a task force in which *[inaudible]* had perhaps addressed this sort of managerial incentives within the Bank forced to reallocate because of the labor intensity in terms of within these institutions--through the concept of core poverty programs which again never really took off at a *[inaudible]* for the countries. How do you sort of . .

SELOWSKY: No and yes, because my philosophy--and I was part--was always, “Let’s”--and you will see that in all our statements—“Let’s do our good policies in trade, deregulation, macro stability, et cetera, et cetera. But then on the poverty targets—because in Latin America most of the countries cannot afford that--instead of spreading ourselves in the name of poverty to call everything a poverty,” sort of, so I don't remember what was it called, but we do have a program of targeted interventions in the sense that a large part of our most poverty thing is not so much to bring up productivity of agriculture, some of *[inaudible]*. It is very much targeted with social sector, vaccination, children. It is very much children, mothers, that kind of thing, primary education, okay? The problem that we have is that sometimes people call it, “Oh, this is sort of asistencial, public assistancial.” Translate to him that. [both speaking at once]

WEBB: In Latin America it's a bad word, asistencial.

SELOWSKY: It's means it’s like charity.

KAPUR: Like on the dole [all speaking at once]

SELOWSKY: Charity.

WEBB: And it always, especially from the left, when governments propose things that are, that are wealth proposals, people on the left say, “Well, that's merely asistencial,” in other words, it’s not revolutionary. [all speaking at once] “Unless you have a land reform, you haven’t done anything.”

SELOWSKY: Yes. But, look. Let's see now the sizes; let’s look at real data, okay? [pause to get documents]

This is sort of developing sciences. We start in a—how to *[inaudible]* consultants. This the macro thing, this is sort of rural development, agriculture, energy, operations, population. We have fourteen people working in relation to human resources. Population: Next year we're planning to lend about 25 percent to human resources. I can give you a graph. I can give you a very nice graph of the projections on human resources. [inaudible--getting the graph]

[Interruption]

SELOWSKY: Richard, no tengo lo que busco *[inaudible]* looking for, and . . .

Sorry. I'm switching to Spanish.

KAPUR: Oh, that's okay.

SELOWSKY: Oh, here I have it.

WEBB: There is no Spanish before this project.

SELOWSKY: It is notional, huh? But you can--it's all notional, that's very true. I feel I'm making propaganda for Richard here.

KAPUR: But what would you say is that comparative advantage of the Bank in this area? Does the Bank have a comparative advantage?

SELOWSKY: Well, we can--you can buy it, right?

WEBB: Buy policy changes.

SELOWSKY: No, human resources, you mean?

KAPUR: Right.

SELOWSKY: No, you have to buy, you know, you have to decide to get educational economists or we are hiring doctors, and we are hiring--you can buy consultants from Chile who have excellent . .

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

SELOWSKY: Well, my hypothesis is faulty because maybe it was very much interpreted as family planning, and then--Richard, I mean it's a philosophical thing that I wanted to say. For a long time in this institution was too concerned and you solved problems by acting on the sidelines. You provide credit. You provide condoms. You provide family planning services. You provide, instead of realizing that you have to meet the demand, effective demand. You needed effective demand; you want, you needed a willingness to invest in the country. You have to wait for the levels of education so that poor people realize that they want to use family planning services, right?

WEBB: Um-hmm.

SELOWSKY: And the determinants of the demand are much more subtle—sutiles. They are much more subtle. They take time. Some of them are not amenable to policy changes. It's a function of calendar time, of a decade, you know, of people to rise. And many of the interventions of the Bank had to work on the demand side, you know. Look, let's give education to the girls, improved levels of schooling so that they would like to use family planning. Improve environment for people who would like to invest. Food security: people say, “Oh, there is malnutrition because the country is not producing enough food.” But India, you will realize that by producing more food the effective demand for the poor doesn't increase, if you produce more food; you export food. Now that's sort of like we can sort of reflect together, you know?

WEBB: Yeah. I understand that. What are you really aiming at with this money? I mean, you're spending a lot more, but it's still a drop in the bucket. You know that.

SELOWSKY: Yeah, it is a drop.

WEBB: So, is the idea with this you can buy a lot more policy change, institutional change?

SELOWSKY: In some of the smaller countries that money is normally and most of the time also triggers donors' money in the social sectors, okay? Many times I've talked to the social fund: when we give twenty, the Dutch give twenty, the Japanese give ten, and the French give twenty, okay? But people in the social sectors, okay, I mean the food planners, just like Nicaragua and Guatemala and Bolivia, okay, so we got a catalytic role. Also many times we have a demonstration effect, and we have a pilot project, the government itself, particularly the governments who are a little richer, can expand.

For example, we have in Colombia a very nice project that would set a good example in which we tried to finance the very poor in poor neighborhoods. We will finance for a week or two a poor mother in her house will take care of ten or fifteen children of the neighborhood. We would pay the mother, pay a nurse to come every day to play with the children, give them food, check them sort of in terms of health for the two weeks, and there are work release also, working time of the other mothers so the other mothers of the children could go work. Then after two or three weeks we would rotate, and another mother would do it, okay? Now the Colombian government is expanding that program. We can talk about that. So it works sometimes as a sort of a pilot program and then sort of to break some inertia in some ministries, okay?

KAPUR: Is there a difference between earlier times and now on fungibility? Is it the fact, you know, this age old question of is this money really substituting for what the government would spend, in a sense that money should be for something else, or is it additional? *[inaudible]* what's going on [both speaking at once]

SELOWSKY: Yeah, I don't think that we will ever be able to solve that, right, in the sense that . .

KAPUR: But in the Bank’s own approach . .

SELOWSKY: Yes. Look, I'll tell you something. I'll tell you my instincts are that fungibility is more important in some sectors more than the others. I think in the human resources area I think we have probably quite a bit of additionality. But where we have fungibility a lot is in those credit lines that we were talking before, where we come, can you see. And this is sort of what people can understand.

In the old Bank, you know, you had here, you know, a farmer who was getting credit from probably an agricultural bank, and the World Bank would come and say, “Look, you know, we can provide you, we can give you 1,000 dollars at a 5 percent interest rate.” So then the rest have to get it at ten in the market, okay? So we didn't do anything in terms of additionality. The only thing we’re giving him is a blank check *[inaudible]* an intra-marginal transfer. We didn't do anything here to affect the margin. So I think to a large part we would find that some of those credit lines have very little impact because of that.

WEBB: The question is really, I think, the fungibility within government expenditures.

SELOWSKY: In total?

WEBB: Yeah. Because the Bank’s lending for one thing, but they have a portfolio, so they . .

SELOWSKY: Well, that’s a little--we tend to look, well, that’s the reason we have those public expenditure reviews, okay, in which we try to at least single out their biggest elephants, you know . .

WEBB: How is that working?

SELOWSKY: Okay, so this is something that in some countries is almost every year done, particularly in the smaller countries who have a lot of donor meetings.

KAPUR: In the early years is this what you called public investment review?

SELOWSKY: Now it's including all our public expenditures, including procurement costs.

WEBB: Is that a recent change?

SELOWSKY: No, that’s changed since a long time, ten years ago I remember, because the recurring costs are so important.

WEBB: How do they work? Are they part of the [both speaking at once] negotiations?

SELOWSKY: No, it's part of our economic and sector work.

WEBB: Your own?

SELOWSKY: Yeah.

WEBB: That is then discussed with the governments, becomes a part of . . .

SELOWSKY: Sure, sure, sure, sure, sure. Then many times it's asked, you see . .

WEBB: Is it a crucial, an important tool in the negotiations?

SELOWSKY: Well, it depends, you know, where there are a lot of presumptions, there are a lot of white elephants, then it's part of the conditionality of the loan, of an adjustment operation, sort of a condition of third tranche, second tranche, an agreement on the 1993 expenditures, budget, satisfactory to both the country and the Bank.

WEBB: The more traditional Bank intervention is not so much with total spending on health but its type of health expenditure, and the same with growth, and the same, et cetera, et cetera. So a public expenditure review, I don't know if that gives you much of a tool for . . .

SELOWSKY: Ya los agredados, si los agregados. [both speaking at once] You're right, yeah. Well, that's the reason we break it. We have now been undertaking social expenditure review.

WEBB: *[William P.]* McGreevey did a whole series of that.

SELOWSKY: Yes, yes. He did that for Brazil, remember?

WEBB: Yeah.

SELOWSKY: In which he tried to--public expenditure. You also did some of that.

WEBB: No, he asked me, but he never financed it so I couldn't. He said, "I want you to do this, but you have to find the financing." Where could I find the financing?

So this was the question of fungibility, but the objectives of this money, you were saying, in some cases it's catalyzation. In small countries you have a big leverage on the total aid package.

SELOWSKY: Yes, because we can get a lot of donors. We have a big rollers as chairmen of consulting groups in which, you know, the Germans and others come, okay?

In the richer countries, bigger countries like Brazil or Argentina or something, we can--the project can only operate as a pilot.

WEBB: Really like an example.

SELOWSKY: As an example, a pilot to break sort of some bottlenecks in a particular state ministry which doesn't want to act, okay? Et cetera. So in big countries the most important thing is maybe to have an agreement with important adjustment operations regarding some of the reallocations. But even they, you know, in the big countries, we have--it's more limited there, the amount of . . .

So the issue is--you know, I mean in the *World Development Report* they talk about something would be an indication, that we should sort of make all of our lending dialogue based on what the country does on poverty. There was a big discussion. People say, "Well, look. We cannot sort of abrogate, take ourselves sort of the final judges on this, okay, and we should sort of act a little more in a more sort of modest way, say, look, you know, show to the countries that with the existing resources they can do much more, that 'Look, you're already spending a lot of waste.'"

You know, we did some something; te acuerdas Phil *[Phillip A.]* Musgrove? Tu fuiste a *[inaudible]*

WEBB: Yeah.

SELOWSKY: You know that we did something called "Feeding the children," feeding Latin American children? He explored hundred programs; te lo voy a dar. You want a copy?

WEBB: Yeah, yeah.

SELOWSKY: I don't know where are you putting all this material? I mean, I just feel bad about giving you this, in which he computed how much countries are spending and how much more benefit they could get either with target or whatever they are spending now. So *[inaudible]* make it a better approach in confronting a government that, you know, cut military spending and transfer the [inaudible--gone off for another document]

[Interruption]

SELOWSKY: You know, my instinct tells me, Richard, that we should not spread ourselves too thinly, work on the worst aspects of poverty, you know, children, vaccinations, malaria, malnutrition, but try to raise, improve infant mortality, primary education, you know. And if we do a good job there, we should just be very proud of it, you know, to be humbled, that we not try to do everything, try to focus on the worst aspects but not try to get involved in, through rural credit and irrigation, try to change income distribution between the third decile and the fourth decile.

WEBB: You haven't mentioned employment programs.

SELOWSKY: Well, I'm not that crazy about employment. Actually, I've tried to discourage them a little bit, okay?

WEBB: Bolivia?

SELOWSKY: Yeah. The issue is that . .

WEBB: He was a big fan of Bolivia.

SELOWSKY: Yeah, well, of Bolivia or employment programs?

WEBB: Well, I mean everyone thinks that it's a great success.

SELOWSKY: Well, I think everybody is wrong. We have an evaluation, and the issues are the following: there are several trade-offs. Let's assume. In Bolivia the country was going through a huge stabilization effort. A lot of the miners were dismissed. Twenty thousand miners were dismissed or something, you know, extremely excessive. Very weak institutions of social sector delivery. So a lot of donors said, "Look, we're willing to give money to minimize the social cost of adjustment, whatever that means in Bolivia." So the idea was, how do we spend that money?

It became obvious that the ministries of health and education and welfare--whatever--were very weak, and the few places that were working were the NGOs, particular municipalities. And it became clear that the fastest way of injecting money reasonably well was for these municipalities and NGOs to identify quickly projects that would do some good, you know, in terms of roads and latrines or something like that, and would employ also poor people.

Now, what happened is that it is very difficult to identify who are the poor people to employ. And always a lot of people are not fully unemployed, so when you can pay them hundred, they earned fifty, so the increment is fifty. And it's very difficult many times to identify, well, you know, who are those NGOs employing? How poor are these people, okay? I would prefer much more to have spent that money for, again, infant nutrition programs, vaccination campaigns, make sure that the children--can treat them for diarrhea, okay? But for that you need better delivery systems, okay, because, you know, if you, in an employment program, if you spend hundred, the guy was making fifty, the net income effect is fifty, right? The increment is fifty. The guy, the man picks up fifty, goes to town, has a couple of beers, gives the wife twenty, and the wife spends on children five or whatever. So the leakage is a lot. I would prefer to concentrate his hundred in deliveries directly going to the children.

Now, we as a good economist know that every transfer can be converted to an income effect. If we give to the children, the mother is going to give them less at home, you know, to the father. Everything could be converted in a welfare payment, but I think it's more difficult. My instinct is--and governments love employment programs; they can also manipulate them a little bit more politically, okay?

So maybe at the time, you know, the focus on employment, the emergency program was the only thing you could do if you wanted to spend that money fast, okay? But now we are trying to make a bigger emphasis on this--at least I am trying to push it more into the social sectors, okay, and to work on the systems of delivery so that when the program ends something is there after we leave. If the only employment program crashes when we leave, there is nothing left. So can we build institutions? Can we have the commitment of the government that after we leave the government has some cost recovery and can replicate that, okay?

WEBB: But just to explore a bit more, don't you think the Chilean employment program just for '82, '83, fulfilled an important function?

SELOWSKY: Probably yes, but remember, Richard, that Chile also has a wonderful safety net for children.

WEBB: In addition?

SELOWSKY: Yeah, so if you get--if a country has that, then I'll say, "Fine, let's do some employment programs." But let's assume in countries like Nicaragua, Guatemala, Jamaica, even Bolivia, Panama, Honduras, Dominican Republic, where infant mortality you see there is, I don't know, hundred--enormous, I would try first to--so you have an emergency fund.

And the first--the government immediately says, you know, "Employment program in the municipalities," because they love that.

I say, "Hold on. Hold your horses. Why not some feeding programs or something, okay?" Because there is nothing there.

In Chile you had a very sophisticated system, and infant mortality was the lowest in Latin America, even under those years of low, decline of defaultos. So that's, you know, employment was sort of something added to something quite good was working. Where you don't have that I prefer to give the biggest chance first to social sectors, to children, to delivery, nutrition programs, okay? These are my feelings, okay, because if we--in some of these countries, in Nicaragua or some of the others, we have come in and before we leave that was one shot money, and then that's it.

WEBB: In the region, there's a lot of talk of social compensation programs, social programs, adjustment programs, structural adjustment. The way you're defining it, is that linked essentially [both speaking at once]

SELOWSKY: Well, look. I don't know what part of the program is due to the fact of a country stabilizing or not stabilizing. My view is—look, let's take a photography. What we observe, we don't like; let's act on it. And to just try to what part of the photography was due to reason A, B, C, D, some of it meant--I'm less interested. Also I found very difficult to identify. I hope a reform takes place and they can recover private investment, wages, unemployment has to work, you know, automatically a little bit infant mortality. So part of this is to lift things while things take time. On the other hand, there is some element that you like to keep there even if things begin recover, okay? But I'm concerned about infant mortality and malnutrition and lack of vaccination and malaria, okay, because of my own, you know--and I try to impose my bias, but, you know, that's the reason I--fortunately I'm the chief economist today, but, you know, this is my instinct. I think I am correct, you know, I mean.

KAPUR: There was an article in *Foreign Affairs* . .

SELOWSKY: And people make fun of me on that, okay? They think I'm the Chilean, you know, "Marcelo y su programa de nutricion. Marcelo has this distribution problem." They make fun of me. I don't care, but you know . . .

KAPUR: There was an article in *Foreign Affairs* sometime back in '82 by Andrew Kamark, when McNamara left, and in commenting on what he thought that most of the poverty had not work, and he thought that two things which McNamara had done really worked. One was on poverty and the other was CGIAR *[Consultative Group for International Agricultural Research]* system and the program for eradication of poverty in the research program, identifying these two as pure public goods which then the Bank--but the Bank never did anything beyond that after that, stopped, in fact, the record on, say, tropical diseases funding very, very minimal *[inaudible]* I wonder if you ever thought of that.

SELOWSKY: Maybe. I don't know. I haven't seen—I mean I'm not surprised. I haven't seen the article--the debate of the Bank on that. You know, it depends on the--I'm sure not—look, McNamara, I think this bound that the interest of McNamara on poverty shoved the institution into the interest. That--I think the mode he went about it was a little too mechanical for my taste, okay, you say you target credit [both speaking at once]

WEBB: No markets.

SELOWSKY: There's no link to markets. But as a person who—the same as *[Barber B.]* Conable with environment. There is no doubt about that. I think--I have a lot of criticisms of Conable, this thing of responding too quickly to pressure groups on women in development. Of that--I am very critical about that, okay? But that becomes another topic, okay?

I think it is important to be humble. You know, this institution, I mean we cannot solve all the problems. We have to sort of fix our priorities where we can . . .

WEBB: In the--you already have as many people in the social area as industry or anything.

SELOWSKY: Still not as much, but we have, you know, the average 15 people, department, por departamento.

WEBB: But you say you need twice as many. It's a very labor-intensive area. And it's the same in the countries.

SELOWSKY: Exactly.

WEBB: Are you really being drawn into the question of, well, should we work with NGOs, local governments, grass-roots organizations? Is that really on the table in Latin America? It is in Asia, much more . . .

SELOWSKY: Well, everything’s on the table. Look, there's nothing that prevents. I mean in many countries you have to work with NGOs because the institutions are so poor, okay? And a lot of social investment funds, which are called, are--the reason of those are try to bypass those ministries is because they are so inefficient. But this is danger, too, Richard, because eventually those ministries are going to be--you cannot all the time be bypassing them, right?

WEBB: Where do you have social investments?

SELOWSKY: In Merticulo *[phonetic]* esta ahi. But we have it in—and Rainer Steckhan has also in, mostly in Central America. We have in Jamaica. We have in Guyana. We have in Bolivia. We have in Guatemala. We have in Honduras, and we have it in Nicaragua. I think I'm correct. Read the thing of Rainer. He talks about that too, okay?

WEBB: Yeah, it is dangerous to have these funds because then you’re—the basic work is still done by the ministries.

SELOWSKY: Yeah, well, there's always a trade-off between short run and if you bypass the ministries, you put--in Bolivia the guy in charge was an excellent guy of the private sector who took over the emergency fund--very good--bypassed all the ministries. But in theory you shouldn't do that in the long-run. You should improve the ministries because these are sort of a challenge by which you can have sort of replicability of projects and—right? So this is sort of what we're facing in several countries, okay? There's a limit by which we can bypass the ministries by those funds. So there’s costs and benefits. It's really difficult. It's very complicated. Well, you know this from Peru.

WEBB: It's hard for the Bank to take the long view, no, in practice?

SELOWSKY: Also, the Board *[of Executive Directors]* doesn't help because the Board wants everything, you know.

WEBB: Yeah.

SELOWSKY: [inaudible]

WEBB: Yes, as long as I . . .

SELOWSKY: Pero podemos juntarmos de nuevo. [both speaking at once] One and a half hours is enough, and then we can do another one and a half hours, if that's okay.

WEBB: Great!

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