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**Transcript of Interview with**

**JOHN D. SHILLING**

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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.

*John D. Shilling*  
*February 2, 1993 – Final edited*

*[Tape 1, Side A]*<sup>1</sup>

**SHILLING:** . . . I started there in I think '84, and the government had gone through a whole series of partial adjustments, starting back in the '70s. When things would get really out of whack, the IMF [*International Monetary Fund*] would come in and they'd do what would have later been called a stabilization program. They'd get inflation under control and the budget under control and the government would say, "Ah!," breathe easy, and things would start getting loose again. I actually did a paper one time that had this on a five-year cycle. And I went back and looked at it just quickly, and they weren't too far off the five-year cycle ten years later. You know, two years of tight and then three years of loose.

There was a project that was started that I think was important in the whole process in the late 1970s by Bela Balassa, and Brendan Horton was the primary researcher. It was a research project on effective protection, trade policy in Morocco. And Brendan lived there four years and worked very closely with the ministry of commerce staff and basically converted a number of them to neoclassical economics and trade theory so that there was both a core of research and information about trade policy and the related fiscal tax structure and things. So it was known what the situation was and what the impact was. And there were a core of Moroccans who understood the issues and understood the importance of getting trade policy right and reducing protection and promoting exports.

Morocco got hit fairly badly in '82, a combination of oil prices, exports declining, imports going up, budget deficits, plus they were carrying a fairly heavy burden of the war in the Sahara. And so they really--suddenly in '82--along with everybody else, could no longer finance everything by borrowing commercially. And they, like everybody else--I think this was in '83--they had an emergency meeting, started rescheduling their debt with the Paris Club, the London Club, and asked for extraordinary assistance. And the IMF convened a meeting in Paris to put together a rescue package, basically. The dates and the amounts, you'd have to go back and look at the record. I don't remember that.

And part of the package was that the Bank would institute a structural reform, trade policy reform program, and a first industry and trade policy loan, ITPA [*Industrial and Trade Policy Adjustment loan*], was done in '83, based on the work that Brendan Horton had done and what the whole project had done.

**WEBB:** Was it called a SAL [*structural adjustment loan*]?

**SHILLING:** No. It was called a trade policy loan. It was a sector adjustment loan. And that was (sort of had been) started when I came on board as division chief, and in a sense it had been an opening gun in a dialogue.

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<sup>1</sup> Insertions by the Brookings project team are in [ ]; additions by the World Bank Group Archives are in *italics* [ ].

The agriculture division was putting together an agriculture adjustment loan, which was trying to address some of the inefficiencies in the agriculture sector, better fertilizer marketing--getting the government out of fertilizer marketing, I think, was the answer--and some other policy changes. And the IMF was supposed to be supporting, in addition to the basic stabilization issues, a fiscal policy reform that introduced a VAT, that increased direct taxes, improved overall revenue generation while rationalizing it, and that got rid of some of the more distortionary taxes. This was a counterpart to our trade policy, which was actually reducing tariffs so that there was a dilemma here of trying to raise revenues and reduce a budget deficit at the same time we were giving up some trade revenues. And the trade-off was they would get more net additional revenues than we would give away, and you'd get the supply side stimulus from the trade policy.

There was a sticking point in there which was a surtax on imports--and I'll remember the name of it in a minute--anyway, it was a 15 percent across-the-board surtax on imports. And this was, interestingly enough, viewed by the industrial sector as a tax on them, rather than a form of protection. And they didn't like it.

**WEBB:** Same thing happened in Peru.

**SHILLING:** And they thought it was the Ministry of Finance chickening out, basically, and doing an easy tax to raise revenues rather than addressing the fundamental fiscal reform, which a lot of them felt was necessary as well. I can't remember the name of it; it will come back. But anyway, there was a surtax.

So anyway, we reduced the surtax over a period of years, and we were reducing tariffs and making the spreads much less to reduce effective protection and lower the average, and eliminating a lot of non-tariff barriers.

**KAPUR:** Was it the Fund's idea to have the surtax in the first place?

**SHILLING:** The surtax had started in about 1972 or '73 of two or three percent, and it had gone up and up and up, and the Fund wanted to preserve it for revenue purposes. We wanted to get rid of it, both because we wanted to lower effective and average protection and also because there was a political quid pro quo that the industrial sector was willing to see the tariff protection go down if they've got this tax put off.

Now, analytically that didn't make sense, but politically, because of the way they viewed the tax structure and the Ministry of Finance, they were willing to get rid of this tax which they felt was sort of a generalized tax on all of business that they didn't like.

We agonized a lot over how fast it should come down. We slowed down the rate of reduction because the Fund was concerned about the revenue loss, and actually the Bank had come up with alternative revenue-raising devices that were less distortionary, and in fact in 1984 this trade was made. We brought down the surtax, and the government put in some alternative tax measures that kept the revenue even.

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**LEWIS:** What kind of taxes?

**SHILLING:** I'd have to go back and look at the documentation. I don't remember exactly what kind of taxes.

**LEWIS:** But they were direct taxes?

**SHILLING:** There were some direct taxes, and I think there were some excise taxes and some broadly-based indirect taxes, rather than import or direct taxes.

Anyway, when I came on board, this dialogue was beginning, and we went through a period of three years where we completed the first trade policy loan. We did the second trade policy loan, and we conceived of a series of three of them basically. It had been sketched out early on. We would get rid of this surcharge. We would get import duties down to an average of about 25 percent with a minimum variation. Again, the details are all in the documentation.

**KAPUR:** Now, was there any reason you chose three trade policy loans rather than one SAL?

**SHILLING:** Well, one, it had to be spread over a longer period than a single loan would cover.

**KAPUR:** But, say, a SAL with multiple tranches?

**SHILLING:** Well, there was a lot of debate whether we should call it a SAL or a sector policy loan. In terms of the content, there was no particular difference. It was an administrative trick that I continued which was basically there was a limit of five SALs in any given country. There was no limit on SECALs [*sectoral adjustment loans*]. So as long as you could count it as something that had no limit, that just increased the flexibility, and then the assumption was that at the end of the third one, if we needed something more, we'd go back and do a SAL and bring in more, other issues that we could address in the SAL.

The second trade policy loan actually had a number of financial sector reforms. We got them to agree to raise interest rates and to begin to reduce the caps on interest rates, the number of controls on interest rates. So we were moving toward freeing interest rates.

**KAPUR:** That was a three-year trade policy?

**SHILLING:** That was a trade policy loan. It was originally called a finance and trade policy loan, and then Ernie [*Ernest Stern*] said, "Dump the 'finance.'"

We said, "Yes, but we want to have these interest rate measures and other measures."

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He said, “I don't care what's in it.” He said, “Don't call it a finance and trade policy sector loan!”

So we did a trade policy sector loan too, and then the question was, do we do a SAL next or do we do something else. We were moving toward a SAL because the fiscal situation, fiscal policy, revenue reforms, were not moving as fast as they were supposed to, and here the Fund was typically willing to accept any measure that met a short-run target rather than holding their feet to the fire about the fundamental reforms. So the value added tax ended up being at a lower rate and with more exclusions than one would have desired.

At the same time we moved ahead in the agriculture sector, did two agriculture sector loans.

We did an education sector loan, which was very interesting because part of the IMF initial conditionality was, “Cut your expenditures on education,” which were quite high. And the Minister said, “Don't do a meat axe approach. Let's get the Bank in and do something that makes sense.” So we ended up doing a sector loan, which was essentially--the conditions were to cut down the number of graduate scholarships and university fellowships because all university students were getting stipends and things like that, cut that down, reallocate funds from university education to primary and secondary education, make some changes in the structure of the schools in the secondary education. It was a very nice education sector reform. It ended up saving the government both foreign exchange and domestic money at the same time, so we had a hard time justifying making them a loan to save money! But in terms of the overall dialogue, this was part of the deal. It got money to the Minister of Finance. It saved the Minister of Education from draconian cuts and actually got some measures in he wanted to get in to rationalize the education system.

And we did a public enterprise reform loan which was basically, if the truth be known, to help the government pay off arrears among public enterprises. There'd been a huge accumulation of arrears. The government didn't pay its bill to the electrical company. The electrical company didn't pay its supplier. The supplier couldn't pay somebody else. So there was this big blockage because part of the way the government had met its deficit targets with the IMF was not making a payment. And then the IMF said, “Well, you can't just accumulate these things,” so they had a target on the next level of accumulation, so the Moroccans just held the bill one stage further. The IMF was chasing the Moroccans back up the billing cycle to try to balance the budget.

There was a bigger imbalance in the budget than was reported because of all these arrears, but it began to block the system. So we took advantage of that to put together a public enterprise reform, and this was in 1986. I can't remember whether it went to the Board [*of Executive Directors*] in '86 or '87, but most of the work was in '86, where we worked with the government.

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I remember going out and saying, “Well, why don't we figure out what all these arrears are?” There were a lot of cross arrears, and we could figure out how to cross-cancel them. I had a meeting with the Minister of Public Works who was also in charge of the special committee. You sort of discovered these things. “Oh, well, you should go talk to Mr. Kabash [*phonetic*]. He's working on this special committee.”

So I sort of laid out my idea, and, “Oh,” he says, “we've done all that. We've had this committee. We've got all these things.” They had this huge volume of work that was both working toward the cross-cancellation of arrears, but a huge amount of rationalization in the public enterprise to save money, and he was pulling this all together.

So this was then the basis of the public enterprise loan where we supported a lot of the further rationalization, bringing in modern accounting mechanisms because they were still working under the 1953 French accounting rules so that they couldn't really . . .

It turned out in the process that the public enterprises were reasonably well run, but they were having liquidity problems. So the loan helped sort out the liquidity problems and institutionalized the reform process and began a process of—and I don't know if it's continued or not--where they were at least corporatizing the public enterprises much more than they had. But I don't think they've gotten to privatization yet. Or at least, there was some privatization in it, but that was not a major component. And I think they did list a number of commercial enterprises to privatize, but that was part of the loan. After I left, I think they went back and did a second loan. At least, they were intending to go back and do a second loan.

**LEWIS:** You were there from '84 to what?

**SHILLING:** '88. So anyway we had a fairly broad-based adjustment program where there was a lot of support in the government, particularly the first years when Minister [*Abdellatif*] Jouahri was there. When he left and the next Finance Minister came in, he was more willing to be accommodating and a little more protectionist-minded.

**KAPUR:** Who was he?

**SHILLING:** [*Mohammed*] Berrada. He's still there as Minister.

**WEBB:** Yeah. The one before him, was he . .

**SHILLING:** Jouahri. He was very tough, very good. He lasted through four years during this process.

**KAPUR:** 'Til about '85, '86?

**SHILLING:** Until '85 or '86, something like that, and had the King's support and had the then Prime Minister's support. And the King had really said to these guys who were technocrats, “Go in and solve the problem. Fix it. Make it work. I'll support you.”

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**WEBB:** Was Jouahri a technocrat?

**SHILLING:** Yes.

**WEBB:** Where did he come from, then?

**SHILLING:** He came, I believe, from central bank, and then he went back and he was-- and I believe still is--the president of the BMCE [*Banque marocaine du commerce ext rieur*].

**WEBB:** So when the King or the Prime Minister chose him, he knew what he was, the direction that . .

**SHILLING:** I think that is, as best I can tell. There was royal support for, "We've gotta fix this economy up because if it guts, if the economy isn't solid, I can't continue my political ambitions in the Sahara, and I won't have anything to pass on to my kids." And I mean the one nice thing about monarchies is that they have a longer-term horizon than dictatorships because they've got to protect the family jewels for the family. So we had that.

Now, as adjustment proceeded and as the deficits got reduced, the external and fiscal deficits were on the order of 13, 14 percent of GNP.

**WEBB:** In '83?

**SHILLING:** In '83, '84, yeah. We got them down to about three or four percent by '87, '88. And, again, I don't remember the exact years, but that was the order of magnitude of change in this process. Inflation rates rarely got above double digits, and then they came back down again.

**LEWIS:** Didn't get above double . .

**SHILLING:** I think they got into the 10 or 11 or 12 percent . .

**LEWIS:** Oh, I see.

**SHILLING:** . . for a few years, and then they came back down. Much of it can be credited to the governor of the central bank, a fellow named [*Ahmed*] Bennani, who was your classical conventional central banker, who just sat on credit, sat on the economy the best he could to keep it from being overheated. He had opposed a lot of the government borrowing, and there was a huge tussle between him and the commercial banks who wanted him to co-sign the rescheduling agreements. And he said, "I didn't approve of this lending in the first place. I'm damned well not going to co-sign the subsequent working out of the deal. You get the government . ."



**WEBB:** What was his name?

**SHILLING:** Bennani, B-E-N-N-A-N-I.

So there were in key places in the government very responsible technocrats who were able to carry weight.

**KAPUR:** Did you at all sort of deal with the sort of phosphate . .

**SHILLING:** OCP [*Office Chérifien des Phosphates*]?

**KAPUR:** Yes.

**SHILLING:** Well, when we started this whole process, until about '85 or '86, [*Mohammed*] Karim Lamrani, who was the Prime Minister, was also the protégé of the phosphate company.

**KAPUR:** I see.

**SHILLING:** And now he's back as Prime Minister again. He comes in about every ten years to sort of sort things out and spends a couple of years doing it and then goes back to the phosphate company, which is his real love. So we dealt with him as Prime Minister. I would meet with him regularly on how things were going.

It's a state within a state. When the government was really tight, the big budget-balancing item was what was the transfer from OCP. I think that was probably a reasonably well-run company although we couldn't get very much into it. It had most of the problems of that kind of a monopoly which it probably overinvested and gold-plated, but it was technically competent, and we didn't have any evidence of massive bad management or inefficiencies or things like that. And they do compete in a very competitive world market so that there are some constraints on overall levels of pricing and efficiency, and they seem to have done fairly well.

**LEWIS:** The competition is still from Florida, is it, presently, or . . .

**KAPUR:** Or Israel?

**SHILLING:** I don't know. At one point the Florida mines were out of the international business when they were shooting for the domestic market. And I don't know whether they've come back in. I don't know how that market has evolved, but the Moroccans still seem to be pretty competitive and with this [both speaking at once]

**LEWIS:** I had sort of the vague notion that they were the most, you know . . .

**SHILLING:** It used to be that Florida was their major competitor [*inaudible*] sign of that.

So this takes us up to about '87, and I think by then there was pretty broad support within the government for the reform program. It was having visible and measurable impacts in terms of increasing manufactured exports, job creation, employment. The agriculture sector, which had been suffering from droughts, had a couple of good years, so it was able to take advantage of the reforms.

**KAPUR:** So who was sort of against the reforms prior to this?

**SHILLING:** Well, the traditional domestic oligopolies.

**KAPUR:** In the private sector?

**SHILLING:** In the private sector and some of the public enterprises, the weight of a lot of the civil service that wanted to do things the old way. And it's a bit of a--I mean, the government is very traditional, Middle Eastern intrigues and stuff going on, particularly around the palace.

**LEWIS:** Were there a lot of rents involved? I mean, in the rent-seeking sense? In the civil service?

**SHILLING:** I think there were. Oh, yeah, there were payoffs and things like that, so you had that kind of rent-seeking. I was thinking of it in comparison to Indonesia where you don't have that scale of rent-seeking in Morocco as you do in Indonesia today. You had that kind of bureaucratic inertia, that didn't want to give up control. You know, the government says, "Well, we can't uncontrol imports. I mean, people would import whatever they want. I mean, we have to keep it at this level." At that level there was a sense of "we know better," and this was beginning to break down.

Under Lamrani, the government--he could keep the government together. He was a very strong character, I mean, a [*inaudible*] sort of fellow. Then, when he went back to the private sector, the next Prime Minister was [*Azzeddine*] Laraki, who'd been Education Minister and the King liked him. He was not a strong leader. He was not a technocrat in the economic sense. He was a physician who had become an educator, very nice guy.

**WEBB:** I'm sorry. What was the name again?

**SHILLING:** Laraki. And this is again, I think it was late '85, '86, and there was some shifting of portfolios around when the new Finance Minister came in, and the government lost some of its cohesion. And part of what the Bank did--and this is where it became clear we had to move to a SAL--when we had a cohesive government, reasonably cohesive, doing the sector things and getting the sectors right and everything made sense because there was an overall coherence applying to the government. As this started to break down with the lack of a strong Prime Minister, we provided part of the glue. I mean, so long as we were keeping finance reasonably under control with reducing the special import SIT, special import tax . . .

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**LEWIS:** That's the 15 percent, is it?

**SHILLING:** That was the 15 percent. It had gone to ten, and it was supposed to go to five, and we finally did force it to five.

Then the Minister of Agriculture was willing to say, "Okay, I'll make reforms in my sector even though I don't benefit from your loan directly because that goes into Finance's coffers." And the public enterprises were saying, "Well, we're happy to get this worked out, but we're not benefiting from this. But we see there's balance, and everybody's kind of sharing the pain." Education, the same way.

And when this started to break down without the strong central control, the Bank needed to move toward a SAL, but we also needed to provide the balance between the ministries. I mean, there was a little bit of--I don't know--facilitation going on, and this is when the reorganization came.

And here we hiccupped, because the new director came in and under a little bit of pressure from the Fund eased up on the special import tax and said, "Well, I won't"—we'd already agreed not to take it below five percent, and the government came back and said, "Well, to meet the Fund deadline, the Fund targets, we want to raise it back to ten percent."

And me and my staff hit the ceiling at that point and said, "You can't back down on a policy," which had actually gone--Ernie had taken it to Erv [Everardus *Stoutjesdijk*]-when we said we wanted to go to five percent, we'd a meeting between Ernie and Erv, and Ernie just--as you know how Ernie can be--sort of [*inaudible*]-said, "Why do you have this ridiculous idea of raising this again? We've agreed to lower it, you've got to lower it. It only makes sense. Do you have any reasonable economic argument or not?" And Erv, of course, didn't. [*Laughter*]

So we went ahead with that. I had engineered a study of fiscal policy that I had put in my work program, and the Fund had said, "You can't do that. That's our prerogative."

And I said, "Fine. Let's do a joint study."

So we had done a joint study, and what I wanted them to do was to come down foursquare in favor of continuing to reduce the SIT and reinforcing the value added tax and direct tax reform and strengthening and increasing the revenues, which is exactly what they did.

But that didn't communicate to the area department, who were still telling the government, "Well, call up the Bank and see if you can raise the SIT to ten percent because that'll cover your budget deficit and meet our targets."

And the new director gave in on that. He said, “We'll let the SIT go back up.” We changed the name, and we . .

**KAPUR:** Who was that actually? Was that [*Kemal*] Dervis?

**SHILLING:** Yeah.

**LEWIS:** Who?

**KAPUR:** Kemal.

**LEWIS:** Kemal.

**SHILLING:** We had long arguments with him about that. I was disappointed because he didn't really get anything in return, and I thought he'd be a better negotiator of terms than that.

It caused us a problem with the Moroccans. The next time I went out the word was “betrayal” outside the Ministry of Finance because all the other ministers had said, “We were counting on you to hold Finance because we were doing these other things.” And so rather than accelerating our process and our program, it actually delayed the SAL for about a year until he could work something out. And I think it resulted in a weaker loan because we couldn't press as hard on the fiscal side of it.

The trade elements of the loan were what had already been agreed. I mean, this is stuff we had bought with the first two trade policy loans, and it was the next step. The government was fully committed to it, and they were going to go ahead whether we wanted it or not, and the ministry of commerce was fully on board on continuing new trade policy. And they had invested with all the business community so that they had the support of the exporters and the new industries that were starting up. So there was a large constituency that had built up over these years that was pushing for more trade reform. So that was going ahead.

Anyway, it slowed our agricultural loan down. The Minister of Agriculture was livid because he thought that he was not getting a good deal. He was not getting his investment program, and the Minister was now putting more taxes on him, on his sector. People get very protective of their sectors.

So it took awhile to recoup from that, but I think the strength of the program and the government's commitment was that the economy stayed stable. It didn't get out of hand. They did go ahead with more trade reform. They did do some more industrial reform and public enterprise reform.

Much to my amazement, they had established a department within the Ministry of Finance for public enterprise, and that department took full ownership of the program and carried it forward. And I was very surprised because the guy named to head it was a

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fellow I had not thought would be either strong or dynamic, and whatever it was, it suited him. He came on very strong and again came back and pushed the Bank to be tougher on insisting on the conditions and not to ease off on the conditions, which Kemal had a tendency to want to do to get the loan through. He says, "Well, we don't have to be as tough on this or as tough on that." And the staff and the Moroccans said, "You can't back away."

The whole—I don't know, not the whole but an important element of dealing with the Moroccans is being consistent. And if you said, "This is what we want, and this is what we're going to do. We can be accommodating in how we get there." But they had to understand that the Bank was going to be consistent in what it wanted, and then they would eventually come along. And we worked out a fairly reasonable dialogue where they would resist and resist, and we would hold and then they would say, "Well, okay, we'll do it," and we'd make, you know, a little easing around the edges or something.

And that way we got most of what was considered a very ambitious program. I mean, we'd go to the Loan Committee meetings and stuff and they'd say, "This is really a lot of tough measures. Do you want to do it?"

And I'd say, "Well, we're going to get 85 or 90 percent of it, and, if I propose 85 or 90 percent of what I've got here, I'll get 85 or 90 percent of that." I said, "This is as much as we can get them to agree to and realistically achieve," and that's the way we worked it out.

**LEWIS:** What was Kemal, what was his motivation? Was he trying to move money, or was he just sort of playing a little soft?

**SHILLING:** One, he was inexperienced. He'd never run an adjustment operation. He'd never run a country program. Two, I think he was trying to build relations by currying favor. He says, "Okay, well, I'll be responsive. I'll do this and I'll do that and respond to the government."

And we tried to say, "No, that's not the way that's going to get anywhere. We respect them, they respect us. They know where we're coming from."

On that particular issue, I think it was inappropriate because it was an issue that had gone up and become viewed by the Moroccans as a key element of Bank policy, and you don't reverse it sort of over a conversation around the table where the minister's representative says, "Well, can you do this, too?"

"Sure, let's go ahead and do it, and maybe we'll do 12 percent rather than 10 percent."

So it was badly negotiated and badly handled. And he did that a couple of other times in terms of the conditions in the loans, sort of giving up, I think trying to build favor, build the relationship. It didn't end up speeding up the processes.

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**LEWIS:** Right.

**WEBB:** In all that time did GDP fall in Morocco in any one year?

**SHILLING:** In U.S. dollar terms, yes. I mean . .

**WEBB:** In real terms?

**SHILLING:** In constant U.S. dollar terms, yes. I mean, it went--when I started it was like 800, and when I left it was like 650 or something like that. But there had been as part of our policies some devaluations during the way. I'd have to go back and look at the numbers, if local currency constant value actually declined. I'm sure it declined one year because there was a very bad agricultural harvest and a drought, so there was some actual decline in income. I'd have to go back and look whether it was '84 or '85.

**KAPUR:** I'm sorry. What's their agriculture based on? I mean, what are the main agricultural products?

**SHILLING:** Well, they ought to be and probably are by now self-sufficient in wheat.

**KAPUR:** I see.

**SHILLING:** There were a lot of pricing problems we were straightening out on wheat and import subsidies and things like that. Olives, dates, citrus--huge citrus producer, exporter to Europe--vegetables, fruits and vegetables. Much of the out-of-season fruit and vegetables in France was coming in from Morocco and the rest of North Africa. So that was--and again I'd have to go back and look at the numbers because it's been five or six years. Probably a third of their exports were agricultural based, but there were phosphates and some other minor minerals, and a third were industrial of one form or another by the end of the period.

Some of the reforms we put in the trade sector had--again, if you're going to report on this, I'd go back to the literature--but I remember that there were some changes in terms of access to cans and processes for the fishing industry, so the fishing industry exports increased from like 20 million to 100 million in the course of two or three years just by the trade reform policies, so that there was a lot of that was taking off. [both speaking at once]

There were some monopolies we had to break up.

**LEWIS:** May I ask you a kind of a general question? It runs through your very interesting account. The subject is what I call target proliferation; that is, one of the problems that it seems to me conceptually one sees with a SAL is that you're trying to do a bunch of different things, and, as you multiply targets, the ability to play it tough on individual targets diminishes. Now, that might have been what was partly at work when you sort of went for SECALS rather than the SALs . .

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**SHILLING:** It was.

**LEWIS:** Was it?

**SHILLING:** Yes, I mean, the benefit was you could focus on a sector, and we had more in-depth knowledge and we could really come to grips with the sector issues when we were dealing with one or two ministries. The disadvantage was there was a much greater burden on us to coordinate, to make sure that the reforms we were talking about in agriculture were consistent with the reforms we were putting in trade policy or fiscal policy, and they were consistent with what we were saying in public enterprise. And that was a trade-off we talked about a lot. When they were trying to push us to do SALs and have a little bit of other sectors, I resisted it because I was . .

**LEWIS:** Who was pushing? In the Bank?

**SHILLING:** In the Bank. It was whoever was sort of monitoring, the central departments that always get in the way. Sorry about that!

And I resisted, and we had some fairly heated discussions about what we really wanted to do. I said, "We've got different staff focusing. If they could focus on the key issues in the sectors, then we in the program division"--since we were doing the trade policy loans—"we'll have to make sure it's consistent." And I said, "That's a bigger burden on us, but it's a burden that we can deal with." And the Moroccans did not have an overall economic ministry that could take over that task. They did have over much of the period a strong Minister of Finance--a strong Minister who could make it happen, but they didn't have a coordinating ministry, a super minister of economic affairs or somebody who could oversee it from that side. So that was our input.

**KAPUR:** It was sort of the equivalent of the BAPPENAS [*Indonesian Ministry of National Development*].

**SHILLING:** Yeah. And in fact, BAPPENAS doesn't get into the macro policy side anyway; it's only on the project side. But they didn't even have it on the projects. And, in fact, part of what we did is we did some extensive investment reviews where we really went through with a fine-tooth comb their investment program and kicked out huge numbers—huge, a third of the projects that were just untenable and not affordable so we could cut the budget then.

**KAPUR:** I'm just wondering, as just a sort of a devil's advocate, I mean do you think that more SALs have gone because of a sense of sort of laziness in the sense that SECALs seem to involve, you seem to be implying, sort of much more work on behalf within the Bank in terms of in-depth knowledge, in terms of coordinating across sectors, looking at the consistent, whereas with SALs, you know, you just go at the top, and you hope that things sort of percolate down to the sectors.

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**SHILLING:** I mean I have very limited experience in detail. I've read a lot of the [D.C.] Rao documents and the other reviews. I think there has to be a balance between the stabilization issues and the production supply side increasing issues. And we had a lot of tension with the IMF about how you balance the short run and the long run on that.

I think there is increasingly a tendency in the Bank to do SALs that look more and more like IMF programs, that cover a number of things across the board, that--to be unfair--sort of go from the theory, "Get the prices right, and much of the rest will follow." And that's really only half the story.

And a lot of what we were doing in our adjustment lending in Morocco was, because we were lucky in that we had this project that had developed an awful lot of local knowledge about the details of how the system is working, and a lot of the secret was in the details. We had done similar work in agriculture--and once again, we were fortunate in having very good staff--that there were structural changes that had to be made. There were a lot of other changes that had to be made so that when you got the prices right, the real sector could respond. And again I'd have to go back and look at the documentation, but in agriculture it was disassembling certain sets of government interventions, making sure that procurement prices were announced at one time rather than another time, getting fertilizer, mixing formulas, so that you didn't have three formulas that were available on the market, none of which were quite right for the thing. These kinds of reforms were every bit as important as the price reforms in setting it up so that the agriculture sector could respond.

In the trade sector it was making sure we broke an export monopoly that had the monopoly on the export of fruits and vegetables to Europe. That was a major political battle, and it was transformed into a quality control rather than a marketing control. We had to get the legislation done so private marketers could get up, so cooperatives could market directly into Europe, so that they could start selling. And then things started taking off.

The fish story, canned fish, was one case where breaking a monopoly, allowing the import of cans and labels and things like that so that they could put the fish in such a thing and get it out, led to a big increase in output and production. Once you knew those kinds of things and addressed those as well as the sort of aggregate pricing, you got the sector response.

So I don't know if I'm answering your question, but I'm saying that just getting the prices right in the SAL sense is not often enough.

**KAPUR:** As someone else said, the devil's in the details.

**SHILLING:** The devil's in the details, yeah. Well, and we were able to do that, and we were able to work with people in the government who knew what was . . .



**LEWIS:** Tell me a little more how you did do that. I mean, you seem to know a hell of a lot about the place.

**SHILLING:** I worked there as an advisor for two years before I joined the Bank, in '71 to '73. So I had a lot of credibility when I went back, and in fact I had started advising the government about some of these programs in '73 but as a kid adviser. They smiled and thanked me very much and went on their way. And when I came back--the director of planning was then administering the economy, and a lot of the other people I had known at junior levels were now ministers and directors--I said, "Remember the stuff I was telling you 15 years ago?" I said, "I've got a \$200 million check in my pocket if we can get some of it done." I wasn't that crude, but basically I had a lot of background in the country.

**LEWIS:** So you didn't depend on a resident . . .

**SHILLING:** We did not have a resident.

**LEWIS:** Didn't have a resident there at all, huh?

**SHILLING:** And then we had Brendan Horton/Bela Belassa project, and then we had some very good sector work that had been done. So we had a pretty good base in the country. There was a fair amount of knowledge available.

The counterpart ministry we had, the Ministry of Economic Affairs, while not in a BAPPENAS sense any kind of strong ministry, it had a role of coordinating ministry for Bank kind of activities and other kind of stuff. So when we needed to get things done, like this legislation had to get pushed through or this decree had to be signed and stuff like that, we went to them, and because we'd worked closely with them--and again, we had a very good Minister there--they had ownership of the program, or enough ownership that they could carry things out or they'd call us back and say, "Hey, look, the Minister of Finance is really out of sorts about this or that or the other."

I'd be on a plane very quickly, and I'd go and talk to the Minister of Finance and say, "Can we get this sorted out? What's your real problem?" And usually we could work it out.

Again, I mean I had I think more than a normal amount of credibility because I had been there before and they trusted me, and I could be very candid. And they commented on that on a number of occasions. They said, "We trust you, and we like it." It was all very informal. I mean, there was never anything public that would embarrass them, but they knew that I was not following another agenda, that I was interested in the country. And we could disagree.

**WEBB:** Was the Bank, you in the Bank relationship with them, a very kind of a separate Bank relationship, or was it in some way tied up with the AID [*U.S. Agency for International Development*] relationship or the IMF relationship?

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**SHILLING:** Oh, no, no, no. I made a point that there was an independent relationship. We worked with AID on specific projects. I always kept my distance from the Fund because on this SIT, on exchange rate issues, we had different viewpoints. The Moroccans would say, “Well, we like to talk to you more. We think you're more reasonable about this. Can you try to help us with the Fund?”

And I would say, “I'm not your agent with the Fund. I've made my views known to the Fund, but I'm not going to negotiate on your behalf.” But I didn't hide behind the Fund and say, “No, we agree with everything the Fund said.”

We had some differences, and the Moroccans were able to deal with that. Their Alternate ED [*Executive Director*] over in the Fund was very good about keeping contact with everybody but keeping it straight.

I wouldn't undercut the Fund, but I think they tried to undercut us. I think on the SIT they really kept coming back to the issue after it had been resolved and setting the government up. I remember one time after we'd had an agreement before they went out, the mission called back and said, “Well, we've reached final agreement with everything on the government if you will be willing to postpone the next two and a half percentage reduction in the SIT.” Well, I mean, this is a set-up. You know, we'd put everything together. We had agreed that we weren't going to put this on the table. We now had to put it on the table. We now have a position where we can wrap everything up, and of course the Paris Club and the London Club and everything else depended on the Fund getting an agreement on the thing. So we're set up a corner, and we said, “Okay, we'll forego this for six months or something like that.” But I didn't think that was exactly fair play on the part of the Fund.

And then they set it up again when we had the reorganization and everyone changed here, the Fund again set the Moroccans up to, well, you know, “Let's go back and push on this issue because it was an easy tax.” And they found a more amenable partner on this side at that point than I would have been.

**WEBB:** Is it right to characterize the Moroccan reformers or their reform mentality, let's say, as something that developed over the period and it did not have the sort of religious ingredient that it's had some countries?

**LEWIS:** What do you mean, religious?

**WEBB:** Well, Chicago [*school of economics*], more people that [all speaking at once]

**KAPUR:** At times in Chile, say. [all speaking at once]

**SHILLING:** I think that's a good point. No, this was developed really, intellectual conversion, if you want to call it. Again, going back to this project, we planted some seeds. The project I'd been on for the University of Michigan had been in the Ministry of

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Planning, and we had talked about a lot of sort of basic conventional neoclassical economics and planted some seeds. And people slowly got convinced. I mean, these are well educated, smart people. We're not dealing with something like in a lot of African countries or something where you don't have a depth of people with good education and are unsophisticated.

And we got enough people on board to get stage one. We got some positive results. More people came on board. The Minister of Education said, "Well, look, can we do it right in education?" The Minister of Agriculture was beginning to see some success because some of these were reforms he'd thought about, and he hadn't had any way of leveraging them through the system either, because of the vested interests in agriculture. The large farmers benefitted from the system, and the small farmers didn't. The large farmers often had ties with the King. So it was when the King sort of decided that things could change that people had an option to go ahead and do it.

Every time we'd go back, not literally but figuratively, two or three people would come up, officials we were dealing with in the government, and say, "I'm on board. I'm convinced now. I see it working," whether it was in the development bank or something like that, so that there was a larger group each time that were supporting the new policy in the business community.

**WEBB:** Would the reformers be—they'd certainly be criticized and attacked by interest groups. Would they be characterized with terms like "neoliberals" or this kind of language?

**KAPUR:** Or was it the sort of closed nature of the political system that sort of protected them from real [all speaking at once]

**WEBB:** How would they be criticized? In what terms would they be criticized?

**SHILLING:** IMF criticized--a lot of it was criticism of sort of the IMF kind of stabilization, giving in too much to the foreign institutions, too liberal in the sense of leaving the domestic economy exposed, things like that. It was never ideologically--I mean, in the same sense it wasn't religious on the one side. It wasn't ideological so much on the other, but there was a lot of practical criticism when particular interest groups, interests, got affected. There was a--because a lot of people were being hurt were close to the King--often an attempt to get his support.

*[End Tape 1, Side A]*

*[Begin Tape 1, Side B]*

**SHILLING:** . . . and he'd hold some of the vested interests back, I think. I mean, I was never privy to this side of it, but I knew some of his advisors and stuff and we'd get a feel for, "This is now possible, or this is not now possible," in terms of specific reforms we were pushing ahead.

In the agriculture sector, this became very important at one point, and it wasn't until the Minister of Agriculture had a meeting with the King that [both speaking at once]

**KAPUR:** Which was when, roughly?

**SHILLING:** Well, this was actually in '88 when we were trying to get our second agriculture sector loan declared effective. They had to take some measures. It had to do with reducing some bread subsidies, flour, wheat subsidies, and replacing them with more targeted programs to affect poor because 85 percent of these subsidies were going to the non-poor.

And this was just after we'd had the kerfluffle over the SIT, so the Minister of Agriculture was not too keen. And I went back on my last trip and he wasn't receiving the Bank, but I ran into him at a cocktail party and said, "We gotta talk."

And he says, "Tomorrow at 3:30."

The guy who's setting up my appointment says, "You're never going to get to see him. He's stopped seeing the Bank."

And I said, "Just call him up and find out if it's still on at 3:30."

He came back and said, "I don't believe this. It's 3:30!"

So I went, and we talked. I just said, "Look, you know you've got to take this up." I said, "It's not because of me. It's not because of the Bank. It's because it's your program that's going to solve your problems in agriculture."

And he sort of said, "Yeah, I know." He said, "I've got to sort out this one problem." So he eventually sorted it out.

**KAPUR:** So really, the hero might well be the King in this whole story. If he doesn't back his . . .

**SHILLING:** Well, the King was not a hero in the sense that he was on the charger leading the charge. The hero was the King in the sense that he recognized the handwriting on the wall and politically allowed it to happen.

**LEWIS:** It sounds sort of like an Indonesian case in that sense, that it's [both speaking at once] that provides the umbrella. It's different, though, in that you seem to be dealing with a great variety of Ministers. You don't seem to have that tight gang of five or whatever in Indonesia that you mostly work through.

**SHILLING:** No, in Indonesia the sense is that there are five or six Ministers who are old friends who work together and they're doing the whole thing. [all speaking at once] In

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Morocco we were the glue among ministers who were not necessarily on very good terms with each other.

**LEWIS:** But you dealt with a lot of them and, you know, the usual in this business one goes off and talks about--the trick is to strengthen the hand of the good guys, but there you weren't talking about very many bad guys in the government. I haven't heard you say so much that you're . . .

**SHILLING:** It wasn't good guys and bad guys in the sense that there was a couple of chargers and not. It was a set of ministers who were technocrats representing varieties of constituencies and interest groups and convincing them what was in their own best interest. The chargers were the directors and director generals who were committed and who were pushing and, you know, on a couple of things I disagreed completely with the Minister of Agriculture. He was being very protective of his sector, and there were some taxes that they should have been paying. But most of the time he was, with proper support, following the things. The Minister of Finance, Jouahri was more of a charger and leading. When Berrada came in he was sometimes a good guy, sometimes an obstacle.

I had sort of a standard list of--when I would go out through the major portion of this period, I'd start with the Prime Minister and say, "This is what I want to do"--or usually his aide; he had an aide-de-camp who was very, very smart. And I'd put it all together, and he'd say, "Okay" no matter what was going on in the background. I'd go through to industry, commerce, economic affairs, education, agriculture, finance, governor of the central bank, head of the development bank, two or three other banks, some--most of those each time, to say, "Here's where we're going, and here's what we need to do, and here's what we're pushing." Oh, Minister of Public Works, Kabash [*phonetic*], who was managing this whole public enterprise reform, plus he was our biggest borrower in terms of hydroelectric schemes and road schemes and stuff. He was a magnificent administrator. He really was very good.

**LEWIS:** Where were these fellows trained? In France?

**SHILLING:** Mostly in France. Best schools. I mean, a lot of them are sending their kids to the U.S., to Cornell and Harvard and places like that.

But it was going through balancing with these people and their senior aides on this and getting them all on board for different elements of it. And there was no guy who was always good or always bad. Now, there were a couple of guys like the Minister of Interior who we had to deal with on occasion, and he was not a guy I wanted to cross swords with very often because he was very powerful, very ruthless, but not--sometimes very helpful.

**LEWIS:** Could I go back to . . .

**WEBB:** One of his men followed me all the way from the airport to the hotel, the only time as I've ever been . . .

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**SHILLING:** Driss Basri's?

**WEBB:** Well, it was some secret service guy.

**SHILLING:** I wouldn't be surprised. They've got a very effective . .

**WEBB:** Went through my--I was going to a Bank conference on poverty in Fez in '86 or '87. Deepak Lal's project held a meeting there. So I happened to have a paper that had a great big, on the title page, written large the word "poverty." And he examined this, he looked at me and then followed me.

**KAPUR:** Maybe he thought [all speaking at once] Maybe the word "Deepak Lal" set him off.

**SHILLING:** Whatever it was, they had a very good service. I mean, one of the things I was trying to do toward the end was to do projects with the regional governors who were appointed by the Ministry of Interior, but I didn't get far enough on it to have any continuation.

But we tried to do integrated rural development projects, and when you coordinated them through the capital--of course, the Ministry of Agriculture didn't talk to the Ministry of Public Works, didn't talk to the Ministry of Education, and they couldn't coordinate their activities. So these were problems. So I went out, and I talked to the governors. It turns out that the local head from agriculture and public works and water and all, all report to the governor as well as back. And I asked, "Could you coordinate a project?" And oh, boy! They could coordinate a project! And then I went off, and we had a new director, and he didn't want to follow up that; he wanted to continue at the policy level. So I never got to test that theory, but I think that would have been very interesting. And then we would have been very closely involved with the Ministry of Interior because the governors were all responsible to him.

**LEWIS:** Could I go back quickly to another issue? You were saying that, in the case of the education loan and also of public enterprise, that the reforms that you were promoting actually would save money, and it provided a kind of curious problem of how you spend Bank money to save money. But the more general issue is: how the hell do you put a price on an adjustment loan anyway? You're giving entitlement to an eligibility list or miscellany of goods. What about that? Is one of your problems being able to justify the number when you go to the Board?

**SHILLING:** Early on, in my recollection, because I remember at one point when we were doing the first one in Thailand--that was back in the '70s—we'd had a fairly simply methodology. You may remember this better than I do. You looked at, particularly with trade reform, what was the revenue foregone by lowering tariffs or by the short-term revenue loss if you moved to a value added tax and there were collection problems and transition problems and things like that, and you sized the loan on that basis. That was

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when we were doing structural adjustment loans as part of structural adjustment programs, I mean, as structural adjustment and we could say there's a rough estimate of foregone revenue, pain costs and something like that . .

**LEWIS:** While this thing is taking place?

**SHILLING:** Yeah, and then at the end of two or three years or whenever the loan was over, all the benefits would be pouring in and we wouldn't have to worry about that. Well, one, benefits didn't pour in the timeframe we were talking about, and, two, we got sucked into this debt rescheduling, IMF programming, where more and more we were assigned a piece of gap of 100 million or 200 million or 300 million that we had to fill with our loans. So suddenly instead of designing a loan and getting a rough estimate of the cost of it, we were given the cost or an amount, and we had to structure a loan that somehow justified that to the Board, and I think the Board got less and less interested in a direct justification.

Now, in the case of the education loans—this was still before we'd gotten too heavily into being gap-fillers for the IMF--we really spent a lot of time thinking how we would justify it, and we finally structured the loan so we could actually disburse against 150 million dollars worth of expenditures. I mean, a lot of fellowships abroad for the remaining fellowships. We essentially funded their fellowships abroad program for two years. We did some local cost financing on teachers' salary supplements to get more teachers into rural primary and secondary schools where you'd actually build a house for the teacher in the school compound or whatever it was. We did some building of houses in school compounds and things like that. So we finally figured out how to spend it, but we couldn't ever really come to grips with, "This is creating a loss of revenue over a period of time." So, I mean we just basically said, "This is the amount of money that we think covers the cost to the government of implementing the reforms, and the reforms are good and will have all of this saving at the end."

Now, the King did a nasty thing because one of the key parts of the loan was limited pass rates from the second *baccal* [*phonetic; baccalaureat*] with the university. I mean, how else do you control a burgeoning university student body in this kind of system? They implemented it, and then the King couldn't take the pressure from the families whose students didn't get put into university and for the four or five years of subsidy, get them off the streets for employment reasons. And he said, "Well, we will have a second go-round on the *baccal*." And so we got a whole bunch more entrants at the university. So we didn't control the university budget as much as we had wanted. The primary and secondary reforms went in.

So, I mean this, again going back to question of the political pressures and stuff: well, he pulled out of that, and the Education Minister couldn't enforce that part. It was after the loan had been disbursed because they had had the first *baccal*, hadn't really met the conditions, and then they said, "Well, do another run-through, guys." So we didn't do the second adjustment loan that we were going to do in education.

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**WEBB:** Did you ever meet the King?

**SHILLING:** Yes.

**WEBB:** He would sometimes discuss the details of loans?

**SHILLING:** No. I mean, the details of this were intermediated through his cabinet. He would meet with the cabinet regularly and--just an aside--the cabinet all had very recent model Mercedes. Every time you'd have a conference, he'd import a whole bunch of new Mercedes, and then after the conference was over, he'd give them to his ministers. And I made a comment about that to one of the ministers, and he said, "Well," he said, "I suppose it's true. But if you knew the number of hours we spend in that car chasing off to wherever the king is so he can meet with us," he said, "I think we deserve it!" Because he would be up in any one of his hundreds of houses and he would want to meet somebody, and he'd call up, and whoever it was got in his car or whatever the best mode of transportation and went. I mean, absolute monarch.

**KAPUR:** On another issue, last year, I guess, the Bank was negotiating, or has been since '91 perhaps, a so-called poverty SAL in Morocco. And apparently when it first sort of started, the Moroccans basically refused to sort of admit that, look, there was any poverty in Morocco. This was sort of '90 or '91, around that time. I was just wondering, how does one explain that in the course of . . .

**SHILLING:** The genesis of that goes back to about the second ITPA, trade policy loan, where concerns were already being raised of what is the impact of all of this adjustment on the poor and how do you do it, and we started looking into the issue.

I mean, our first line of defense was, "Well, obviously we've created 40,000 additional jobs from trade policy reform and the industrial expansion and things like that." But we did some modeling and looked at the impact of a number of the poor programs. A huge flour subsidy was part of this thing that was blowing the budget, particularly when domestic production was down, and, you know, we determined that most of the subsidy was not going to the poor. People were buying bread and feeding it to chickens because it was cheaper, actually, because the subsidy was on soft wheat and the domestic poor farmers grew hard wheat. The subsidy was driving down the price of the hard wheat for the poor farmers, so while it was solving urban poverty, or helping address urban poverty, it was aggravating rural poverty.

We brought a lot of this out in '86, '87, '88, and the second agricultural sector loan, part of the thing--and this is what helped delay it--was the government had to begin addressing some of these poverty issues in that. And again, I'd have to go back and look at the document as to what the specific poverty reduction program was, whether it was more--I think it was more targeting of subsidies and things like that.

There was a lot of resistance to that. They didn't want to sort of have, you know, poverty cards, where people would have a card that says, "I'm declared poor." They didn't want to

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admit that their traditional structures were unable to handle it. There was a lot of resistance to sort of the admission that there was poverty there publicly, while at the same time there was a lot, and they knew it.

We'd worked with Catholic Relief Services through one of our programs where they were the distributing agency for some of the subsidized food grains or something like that. We tried to work with them to get better targeting.

So this idea of doing something with a poverty focus had been germinating through that. The education sector reforms had been more education in rural areas to the poor and being able to make increasing access to the poor. We had done some health projects with the same kind of objective. We pushed the agricultural development bank to get out and make smaller and smaller loans to these various things, you know.

So there were a lot of things that had been going on, and I think there was a sense that in response to increased interest in the Bank and the international community, it would be politic to do a poverty-oriented loan. The question was how to pull it all together into something that made an adjustment loan. My recollection, when I looked at it, is it seemed more hokey than real in terms of issues that could have been better addressed directly rather than trying to create a SAL to arrest poverty where there was no immediate and obvious owner on the other side and you were--the point you were making earlier--you were trying to spread a little bit among a lot of different ministries without getting really focused on each one. But I left in '88, and while I kept kind of a watching brief from time to time, I tried not to get too involved.

**KAPUR:** You were mentioning this thing of rents, and you said it's nothing like Indonesia. And I guess you've been working in Indonesia for six months?

**SHILLING:** Oh, all of six months, so I'm hardly an expert!

**KAPUR:** But it's sort of that obvious, even within that short amount of time.

**SHILLING:** Well, that obvious, and everybody talks about it. And, I mean, I've had described to me in detail two or three rather egregious pieces of rent-seeking behavior by people very close to the--well, part of the family.

**KAPUR:** Right.

**LEWIS:** Particularly the family.

**SHILLING:** So that it's the kind of things that go beyond anything that was happening in Morocco.

Now, there was happening in Morocco--and this is why I was very dubious about pushing privatization--there was a thing called ONA (Omnium Nord Africain), which was a conglomerate holding company that was largely owned by the king and a few of his

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people. It was buying up a lot of the things that were being privatized; turning a public monopoly into a private monopoly didn't seem to me a particularly beneficial way to go. So I was resisting some of the pressure in the Bank at the time to push too fast on privatization because until you can tell me you've got a market that's buying it that's really private sector and not just a couple of oligopolies, I don't think there's a lot of benefit. At least, if it's in the public sector, it's reasonably transparent and you can see what's going on.

**WEBB:** I asked you about GDP before, and I want to make sure of this. I get a sense that one thing that helped things keep moving: you keep referring to the reinforcements. There were--some successes began to get visible, and that one thing that may help to explain the reason that things kept moving was that there really was no big collapse in the economy as you have had in a number of other debt-ridden countries where you have some reforms or not--in any case, the economy goes over the edge, and then you've got a lot of reactions, and the president or the king or whoever says, "No way!" and backtracks, and everything gets off schedule. Did that occur at any time? Did Morocco survive some such test in this road?

**SHILLING:** Well, they didn't go over the edge; I mean, so they survived whatever threats, and it's kind of hard to say, "Were the pressures they were under greater or less than in other countries that went over the edge?"

I think it was a significant accomplishment because--there were some lucky factors, too. I mean, if we had had one more year of drought, I'm not sure that they would have continued, although it wasn't clear that they would have broken the liberalization reforms in industry. They probably would have broken the budget, and it would have been a problem with the IMF. There was enough sense for fiscal stability and monetary stability that they weren't going to resort to excessive monetary creation or inflationary policy. They had a strong internal resistance to that. In a pinch they probably could always rely on Saudi to come up with a little bit of extra at some point. So they had a deep pocket that they could rely on--probably.

On the other hand, it was not only that they had a lot of drought during much of this period. They were fighting a very expensive war in the Sahara. Now, that's self-inflicted, but it was a major drain on their resources. They had a couple of bad bouts with phosphate prices going south and getting hit with oil. They did go through a full-scale rescheduling with commercial banks and the Paris Club and basically met those conditions. So . . .

**KAPUR:** But the net resource transfer from outside during this period was reasonably positive.

**SHILLING:** It continued to be positive.

**LEWIS:** You said commercial banks in the Paris Club?

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**SHILLING:** And the Paris Club.

**KAPUR:** Which is also not the case in a lot of other programs.

**SHILLING:** Well, yeah, but there's a chip in the Bank here. I mean, we were continuing to lend because they were actually implementing the reform, as was the Fund. They were able to convince the U.S. and Saudis and others that they had a viable program.

Now, it's not a poor economy. I mean, it's a fairly wealthy economy. If they hadn't fought the war in the Sahara, they may never have gotten into this big a problem in the first place.

**KAPUR:** Did the Bank--I believe in '81, '82, the Bank internally did look at the military expenditure.

**SHILLING:** We tried to look at it from time to time. We had various estimates of it. They don't [both speaking at once] estimates . .

**KAPUR:** [*inaudible*] never raised.

**SHILLING:** Informally, yeah, but I mean this was an easy way to get yourself invited out of a meeting if you wanted to base your whole program on their military expenditure. So we did nibble around the edge of it, but we never got directly involved.

I mean, I think they had a severe but not overwhelming problem. They were able to internally mobilize enough commitment to support a reform program. We and others were able to put together a credible reform program that we could sell and carry through, and it took well enough that it set out roots. And what I gather from my friends in Morocco and others is that it is flourishing, more and more commitment to liberalization, to industrial expansion, to exports. They're trying to get into the common market, or at least get better access, so that much of the reform program is still there and moving ahead. The deficits, we got them in '87-'88 down to two, three, four percent of GNP, and they've stayed at about that level, which seems to be reasonably sustainable.

**WEBB:** Was the debate in Morocco ever public? Was it entirely an internal debate? Did public opinion--does it occur through the media?

**SHILLING:** There was a fair amount of discussion among the policy elite, and I use that as a broad rather than narrow term.

**WEBB:** Is it all oral, internal, or is it . .

**SHILLING:** I remember participating in two or three fairly open seminars with academics and the press and everybody else. The press was reasonably open. There were stages of criticism and such. Political pressure clearly was very important in the government's timing and extent of their action. I mean, when they raised the price of flour

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or when they raised the price of fuel, when they did this, was entirely--not entirely, but it was very largely governed by perceived public opinion.

**WEBB:** It was, huh?

**SHILLING:** And they had a set of riots in Casablanca in '84 which slowed things down for awhile. I think it was '84.

**LEWIS:** Is there any way that you could have had the impact on policy that you did without the transfers? Without the money? Or even with a lot less money?

**SHILLING:** If a reasonable level of international support had not been forthcoming, I don't think they would have been willing to embark on this policy. I mean, the Fund levered it with very little of its own money because it was the clearinghouse for everybody else's money. Could we have done it with more or less? If you're talking about 50 million dollars one way or the other, sure. Could we have come in and said, "Here's a program, but we don't have any money behind it," I don't think we would have been able to do it.

**LEWIS:** This is fascinating.

**WEBB:** Great story!

**SHILLING:** Well, it is a good story, and I think ultimately we got it embedded well enough that when we let up it didn't--I mean, I was worried at the time that when Kemal decided not to press on two or three issues, we would really lose a lot. I mean, we lost a certain amount of credibility because I think the government felt that we'd let them down.

**WEBB:** You stressed consistency. You were there four years plus your previous time so that that surely had a lot to do with it.

**KAPUR:** On the Bank side there was one person who has not sort of transferred out after two years, in a sense that on the Bank side there were a few key staff members who were there, too.

**SHILLING:** There were key staff members who were there for a long time. The transitions happened where--I mean, I had two or three transitions in my division, but they overlapped and the new people were able to establish themselves fairly well.

I was lucky because I did have background and credibility in the country and could come in and start basically from day one carrying on serious discussions with the government. In Indonesia I have nothing like that to start with. It's going to take me a long time to build up that kind of relationship. But the Bank institutionally has it through other people, and when Nick [*Nicholas C. Hope*] leaves and stuff I'll be able to sort of take over that.

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But in Morocco, previous connections helped a lot because I could sit down with people and they weren't feeling around and saying, you know, "Are we going to trust this guy? How far can we push him?" I knew the Minister of--I didn't know the Minister of Finance, but I knew very well the Minister of Economy. I had known the Prime Minister before but never worked very closely with him and this time ended up working very closely with him and then his successor. And there were two or three other ministers or senior people that I had known so that it was easy to establish contacts. The whole Planning Ministry were all the people I'd been working with when I was there before.

**LEWIS:** You were clearly the pivotal external actor there as compared with, say, AID or the French?

**SHILLING:** We, the Bank? [both speaking at once]

**LEWIS:** The Bank, yes.

**SHILLING:** I think so. I mean, the French had their own direct contacts and such. In terms of the reform program they were very much supporting us, and I think for political reasons wanted us to be taking the lead. The U.S. did not have a major program there. They had 20 million dollars or something, and they were funding some studies. The IMF was not viewed as a friend; we were viewed as a friend. So, yes, we were, I think, in that case pretty critical in doing it. We levered the African Development Bank. They co-financed a couple of our adjustment loans, so we were able to leverage some more money in. I think it was that kind of role. I think the Bank was able to play that kind of role.

**LEWIS:** Sounds very good. Sounds like it's a good case for headquarters-centered operations as long as the guy has been there for two years before he joins the Bank.

**SHILLING:** It makes a lot of difference, having that kind of background in a country. I think in the Arab countries it maybe counts more than some other places.

**KAPUR:** It's a sort of informal contact. I mean, this word of trust is very important and that is very nebulous.

**SHILLING:** And you build it up by being firm and tough, not just by being friendly because each one of the Ministers wanted to know how I was going to deal with the other Ministers! And whether if I said something to him, and you make this adjustment, would I be as tough with the other guy. If they were comfortable with that, then we could talk about serious programs. And so I mean, when we had this change on the SIT, the words they used were not words that I felt very comfortable with, and I didn't stay much longer.

**LEWIS:** Well, thank you very much. This is great.

*[End Tape 1, Side B]*

*[End of interview]*

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