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Transcript of interview with

DRAGOSLAV AVRAMOVIĆ

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KRASKE: The following is the recording of an oral history interview with Mr. Dragoslav Avramović, retired Bank staff member and former Governor of the Central Bank of Serbia and Montenegro, September 9, 1996.

I am Jochen Kraske, the Bank's historian and with me is . . .

AVRAMOVIĆ: Mr. Dragoslav Avramović, former member of the Bank staff in the economic field, recently Governor of the Central Bank of Yugoslavia.

KRASKE: Well, thank you, Drag, and welcome to our oral history program here. Perhaps we can start by asking you how you came to the Bank and when and what were the circumstances under which you joined the Bank.

AVRAMOVIĆ: Well, I got involved with the Bank as an official of the Yugoslav government in 1946, '47, '48. I was then in the Central Bank of Yugoslavia and in the Ministry of Finance, and I came to the Bank's inaugural meeting in Savannah, Georgia, in 1946. I was then assistant to the Vice Governor.

We didn't have at that time any economic relations with the Bank, really. Yugoslavia was still deeply in the Soviet sphere of influence all the way to 1947-'48. But we did become members and maintained this membership compared the other Eastern European countries such as Poland, Czechoslovakia, et cetera, so the relationship was never really interrupted.

It became dramatically active with our conflicts with Cominform. I was then in the Yugoslav Ministry of Finance and was asked to head a group which was charged with the external financing problems which Yugoslavia would encounter. Well, it was absolutely clear what those problems

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were. I had already been involved in the release of Yugoslav assets and the negotiations related to that, the blocking of Yugoslav gold, and in the management of the foreign exchange situation which was then quite dramatic.

What this effect meant was that one of my first jobs was to organize the staff group which prepared the economic material for foreign lenders. Foreign lenders were then the IMF [International Monetary Fund], the World Bank, the U.S. government, and some other Western governments. I had created an effective small team which for the first time put together a general survey of the problems, prospects, and requirements of the Yugoslavia economy.

I was in effect heading the staff group which was negotiating with foreign missions and foreign lenders. And in that capacity, I welcomed the World Bank mission which came to Yugoslavia; I think it was '48 or '49.

KRASKE: This was the first World Bank mission?

AVRAMOVIĆ: The first World Bank mission--well, there might have been some earlier contacts, but on a minor scale. The real first working mission was the Bank mission led by Stanley Hoar, and the key man on that mission was Martin Rosen, who then carried that ball more than anybody else over the years.

Martin Rosen also accompanied [Eugene R.] Black when he visited Yugoslavia for the first time in 1949. I had met Black before, but it was the first time that I was in his company. There was a Yugoslav team of which I was a member, and at the same time I was heading the Secretariat. So, the involvement was quite close, both in Belgrade and when I came to Washington for negotiations.

After a year and a half to two years of this work, it occurred--I think--to both some of the Bank people and to myself that it wouldn't be a bad idea if I were to join the Bank for a limited period to see how it worked from the inside. I was very pleased to do that. I was the first Yugoslav to be offered this opportunity, and it was obviously going to be very interesting.

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There was an ideological conflict, as you suggested, because of the Yugoslav political philosophy and the operational practice of the Bank. I was deeply engaged in economic analysis and the Bank's economic team was excellent, led by excellent people. We had this common language which surmounted any differences of views that no doubt were there. This was somewhere in 1949, '50. I was in Belgrade where I went to the university and taught and at the same time was advising the government. Finally, somewhere in mid-1953—at that time you had to get a release from the government to go abroad. I became the first Yugoslav to join an international organization. not just the United Nations but one of the financial institutions, which was a step beyond.

I came to the Bank with the understanding that it would be for a couple of years, initially. IT was more of a combined study, training, and getting acquainted type of tour. At the beginning it was inevitably rough, but it helped bridge these initial problems. After two years I was asked whether I would stay. And so, I stayed. I was initially on the economic staff, which was then a group of ten people headed by Leonard Rist. Then following the massive transformation of the economic staff, I ended up heading it at the end.

KRASKE: Can we go back for a moment to your background, your education, in particular university education? I have read your little article about Paul Rosenstein-Rodan in the Dudley Sears' book. I gather you must have met him when you were in the U.K.?

AVRAMOVIĆ: No. I met him here.

About my background: I studied in Belgrade. We didn't have an economics faculty then; we had a law faculty with a heavy economics content. So, I specialized right from the second year in economics and carried through three, four years of very intensive economic work. And then I was in the advanced program for doctorates in Belgrade.

Then came the war and the interruptions caused by the war, but immediately after the war I was already involved in the Central Bank. I went twice on mission to England and ended up in the

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London School of Economics for several months to get some additional grounding. I was one of the very few Yugoslav economists at home with the western economics and at the same time extremely familiar with the economic system we operated since I was working in the government. I wrote two theoretical papers. One was finished when I came to the Bank on the transfer problem, the cost of the transfer problem, generally and particularly on Yugoslavia.

Problems caused by changes in the terms of trade and the relation between external and internal finance always interested me very deeply. They were the subject of my doctoral dissertation, which was published just recently. It covered not only the inter-war relationships of the Yugoslav economy but the theoretical thinking after the war on the efficient working of markets and the relationship between external prices and the domestic economy.

And, second, I made quite an original contribution to the solution of Yugoslavia's economic problems in 1950, well before I came here in 1953. This was on the role of the exchange rates in the socialist economy, which led to the real fundamental reform proposals that made the economy operate in part like a market economy. How do you slice through an economy which has an infinite number of exchange rates and move to some order of exchange rate systems and then to multiple rates? The role of the exchange rate in the socialist economy is today quite a well-known concept. I got to know people in the Fund who used to work on this issue. There were a Pole and a Czech in charge of this in the Fund.

So, I had the advantage right from the start of being at home with socialist economics and all its problems, particularly the problems of the Yugoslav economy, since I was heading this group which had prepared the material for foreign lenders. At the same time, I had closely followed U.S. economic policies through our contact with the banks in the U.S.

KRASKE: So, I can see that right from the beginning you could see the tensions and problems that existed between socialist economies and the capitalist system.

AVRAMOVIĆ: With respect to Yugoslavia the Bank was very pragmatic. The people in the Bank understood very clearly that this was a socialist economy, that there were lots of things

which needed to be done within that framework, both in infrastructure and outside of infrastructure, and that the criteria for project selection and performance should be very clear. There was no attempt at that time on the part of the Bank to change the Yugoslav system or the political structure at all, and the Bank co-existed with Yugoslavia very successfully.

In terms of market principles and in terms of our own emerging private sector, it was quite an achievement for the IFC [International Finance Corporation] to accept the Yugoslav market economy sufficiently for Yugoslavia to become one of the chief borrowers of IFC until several years back.

So, there were really no tensions. At that point the U.S. government relations with Yugoslavia were quite good following the break with the Cominform. I think the Bank wanted to help Yugoslavia as much as possible and was very elegantly skirting around ideological problems that arose. There were no problems with infrastructure lending, and the Bank was also very helpful in advocating the Yugoslav case for program assistance, non-project assistance. Although the Bank didn't get involved in that directly, it was helpful indirectly.

The problems that I had with the Bank later on were the result of my views as I became a prominent staff member. We will come to that, but as far as Yugoslavia was concerned, there were no problems. The Bank managed this relationship extremely well.

The Bank is a very complex institution. That is what I am trying to say.

KRASKE: Right. I understand.

AVRAMOVIĆ: It didn't compromise its principles. At the same time, I never carried this to a point where it would become an ideological problem. It always focused on the technical problems.

KRASKE: Well, even though the Bank at that point was considered as an exponent of capitalist thinking, it was in fact behaving by today's standards in a very progressive fashion. There was the

insistence that there should be development plans, for instance. There was an acceptance generally that governments should play an important role in the development process.

AVRAMOVIĆ: Sure. The Bank, as I say, had different facets. It had its first big mission to Colombia to assist in drawing up a plan. No doubt about it.

Secondly, the Bank politically played a very important role. The Bank's attitude towards Egypt and the Aswan Dam project was politically important. The Bank didn't have any difficulties with India at that period despite the Indians' very heavy reliance then on central planning and government control. I think the profile of the Bank as a capitalist preaching institution came later, not at that time. At that time, the Bank somehow or other didn't look to have ambitions to run the world.

KRASKE: It was too small.

AVRAMOVIĆ: Well, and then the type of people were, I think, different, although there were tensions under the surface. There was obviously tension within the Bank then between two very strong personalities: One was Paul Rosenstein-Rodan, who came to the Bank in '47. You can argue that his article of 1943 foreshadowed the establishment of the Bank, so it was logical that he should come to the Bank. He was Rist's deputy. He was advocating then particularly that the Bank should extend liquidity or program loans, a type of impact loan in broader terms, while the Bank was then set to be a project lender, and [Robert L.] Garner was the man who was the project man.

KRASKE: Keeper of the grail.

AVRAMOVIĆ: Ah, he ran the Bank with an iron fist, and he was the project man. So, there was conflict, not between capitalism and socialism but program lending versus project lending. And over this issue, I think, Paul Rosenstein-Rodan left, and the Bank remained a project lender exclusively for quite some time until India ran into problems. We'll come to that later.

KRASKE: Maybe we can shift to some of the work that you did in the Bank. I believe fairly early on you did focus on the external debt.

AVRAMOVIĆ: That was Garner's idea already at that time in '52. Before anybody else he started worrying about the debt problem. So as a young economist on the economic staff I was asked to look into it, and I got quite intrigued with it. In 1956 I did a study which was published in the Bank on debt service and debt service capacity. It was in that study that I developed some criteria on how to judge a country's debt service capacity.

KRASKE: The debt service ratio being one of them.

AVRAMOVIĆ: That's one of them, but much more important was the relationship between growth, the net growth of the national economy and the growth of the debt. I tried to look at the economic strength of borrowing countries and identify essential criteria to relate the growth of the economy to the rate of growth of the debt service. That was my thesis: If that relationship was satisfactory, then it did not matter what the debt service ratio was. What is important is that economic growth accompanied the growth in the debt service.

That had to be determined by both foreign creditors and domestic nationals and determined who was better off as a result of incurring debt. That was my fundamental thesis, which I elaborated through the three books which I wrote while I was in the Bank, the first in 1956.

Then came the recession '57-'58, and I was asked to do an update of this. About five or six years later, UNCTAD [United Nations Conference on Trade and Development], which was then being created, and OECD [Organisation for Economic Co-operation and Development], which was then becoming a powerful institution in the development field through the Development Assistance Committee, asked the Bank to develop criteria concerning external indebtedness. I looked into the matter again as Assistant Director of the economic staff. I had a very competent group of people working with me: Philip [John P.] Hayes, an Englishman from Oxford; Ravi Gulhati, my personal assistant; Shahid Husain, who later became Vice President of the Bank, and David Holland, who was also my assistant and who later became economic advisor of the Bank of England.

KRASKE: Dorene Crompton?

AVRAMOVIĆ: A young person and very competent.

There was also Hans Wyss, who ended up as head of the Bank's office in Paris and who had a very successful career in the African department.

We produced then a very serious theoretical work on this subject which resulted in my last book on the subject, entitled *Economic Growth and External Debt*, published by Johns Hopkins. This was a study in which we had developed practical criteria: how to judge the level of indebtedness and apply in our economic model the growth of income and the growth in debt service, the relationship between the two and the problem of compounding interest rates.

Once we got the theoretical model worked out I was interested in applying it to individual countries. We did the application to three countries. One of them was India, and this was exactly the period when India was developing a very serious foreign exchange crisis.

KRASKE: That means in the '60s?

AVRAMOVIĆ: Yes. It was as a result of this study, which was jointly run under my supervision on the economic staff, it showed graphs of Indian debt growth possibilities, assuming very high capital output ratios and the resulting debt build-up and the need for both change in India's policies and for soft assistance. It was a very precise type of analysis, much more precise than what the Bank did later. It focused on what is the interest rate that a country can take and what are the risks that are involved. I mean, if you overstate the capacity, you run the risk that you get into default. If you understate, you've given softer terms than you should have. Therefore, the task of the analysis is to judge the degree of risk in doing one thing or another. The main risk you are afraid of is explosive growth in debts.

The model showed the variables which are critical to sustained debt service. In the India study it became apparent that there was a serious problem and the mission of Bernie [Bernard R.] Bell was the result. I was initially chairman of the Indian study.

Later on, in the '70s, I was heading a large mission to Nigeria which focused on the issue of program versus project assistance; that also had a relationship to debt. You could end up in a situation with adequate project flow and not enough funds for maintaining the economy, which was one of Nigeria's problems. In addition, Nigeria suffered from, in the long run, problems of an emerging petroleum country. We applied the model to Nigeria, and this was also quite a good study. The study wasn't published but it led to the consultative group for Nigeria and a more focused assistance program.

On a more general level, I went to Paris to the OECD and presented the study there to the DAC Committee, and it got quite an enthusiastic response.

KRASKE: This would be jumping ahead, but looking at the debt crisis of the 1980s, how did that theory stand the test of time?

AVRAMOVIĆ: Well, it did stand it in this way. I had two, three disagreements with [Robert S.] McNamara. I was then quite a high official in the Bank, so we had these discussions as well as exchanged correspondence. He had the view that the commercial banks, whenever solving the problem of recycling the oil deficits, did know what they were doing. I think he was dead wrong on this, and he didn't grasp, and that was a big mistake made by the Bank, that it accepted the floating interest rates, and nobody stopped to think that the minute the rates went up 10 to 20 percent a year a disaster would occur. I think it was an enormous failure of the Bank. McNamara is on record as saying that the commercial banks knew what they were doing. Commercial banks didn't have a clue what they were doing. They were lucky that they bailed out afterwards. The Americans paid for this enormously and it was their fault; they shouldn't have lent as much as they did. But the commercial banks had accumulated large amounts of funds. So, the developing countries were doing a service to the world economy by borrowing huge amounts from commercial banks.

I don't know whether the Bank could have effectively done something different, but the position which it took by going along with this attitude was wrong. Then the Bank took an awfully long time afterwards to get into the debt issue, which also was a big mistake. They should have gotten into it much earlier to avoid the massive deflation which took place in Latin America.

I was at a meeting last week organized by the Inter-American Development Bank, and looking back, some people, like Richard Jolly, were saying that it was irresponsible that this was allowed to happen. The result was a far bigger transfer of resources and loss of income in Latin America in the '80s than happened during the great depression of the '30s in the United States and in Europe.

It was the developed countries' failure to grasp where the heavy reliance on commercial bank borrowing on a massive scale would lead. The original mistake was obviously that of the borrowing countries themselves, but at least the international institutions should have known better,

KRASKE: Well, it was also related to the inflationary policy here in this country and the driving up of interest rates as a result of growing fiscal deficits in the United States.

AVRAMOVIĆ: Oh, sure. The origin here, and it had to do with the financing of the Vietnam war and superimposed on that was the oil crisis.

The next thing that happened which I blame the Bank and McNamara's regime for is the Bank's failure to do anything with the commodity problem, my other major preoccupation with the Bank.

KRASKE: Maybe we can talk about that now for a minute. You got involved in that in the 1960s. That was also in response to the UNCTAD?

AVRAMOVIĆ: No. It was very incidental. I was part of a very small economic staff in the Bank in 1957. My boss then was Gerry [Gerald M.] Alter, an extremely capable young man. He and

Martin Rosen, as I remember, were the smartest people that I had met in the economic field. I learned from them enormously.

Alter always had the idea that the Bank's commodity forecast was a shady proposition based on what the business community expected and then comparing the results from various sources. He raised a number of questions on what the Bank's economic forecast should really be based methodologically. So that was my introduction to commodity economics at the Bank.

Then the Bank confronted the coffee crisis because of the over-production in Latin America, which was the first big over-production in 1957-'58. Export prices collapsed with expectations of economic disaster. This affected Brazil, Colombia and Central America and then the African countries. It was an issue of particular concern to the U.S. government and, of course, of great concern to the Bank. So, they asked me to do a study on the coffee problem and its prospects, and I got very intrigued with this and the theoretical problem of these commodity cycles and the theorem which explained the equilibrium in these markets. I studied the long history of coffee defense policy in which Brazil had been engaged since the 19th century.

Anyway, I did a study in which I did project the coffee surpluses and the likely fall of the coffee prices. I then developed the theorem of the producing countries' divergent interests, trying to explain under what circumstances they would be holding stocks or selling them on the market. It ended up in effect recommending that the prices would fall catastrophically, which was accurate, and that they really didn't have a choice but to get into a coffee agreement. And then I argued the lines along which such an agreement could be worked out, leaving open whether the world would face scarcity in the future of coffee, not knowing what the real price would be over the 20-30 years, because of a fundamental scarcity of good coffee land. I thought that the problem of overproduction that they are faced with was an immediate and a medium-term problem, but that they should know how to cope with it.

It was a very successful study. Because at the study and independent of it, the U. S. government was going through a big change of heart on the commodity agreements and, in

particular, the coffee one. When the study was published and it reached the newspapers it was called a Bible for the countries involved in trying to save the coffee world in Central America from disaster.

KRASKE: This was in the late 1950s?

AVRAMOVIĆ: It was '58, '59. And it served as a basis for the work of the international coffee group which was then set up and in which the U.S. government was involved. This also raised the prestige of the Bank as it was a very detailed and very clear study. It brought me into this commodity world which I never left.

My second involvement in the commodity problem was when I headed the Nigeria mission. I was in Nigeria when there was an enormous disaster in cocoa prices. Prices fell from 30, 40 cents a pound down to 9 cents, and it was an absolute tragedy. As you traveled through the cocoa growing regions you saw overturned and burned cars. The buyers were descending on Maghreb and on Lagos, reducing the price every week because the prices in the world market were falling.

I got quite deeply concerned as this was a much broader problem, not just affecting one country, and these countries were absolutely defenseless. They relied on the operation of marketing boards, but the boards did not have financial capacity to carry large stocks, which put them at the mercy of foreign buyers. At the same time this was an open field for making major mistakes in trying to support the price at levels which cannot be sustained over the long run, thus aggravating the surplus problem. An entire mess.

I became further involved in these issues as economic adviser in the Latin America department. And the problems were not limited to only coffee and cocoa: it also affected copper and other minerals and the number was rising.

KRASKE: This was again in the early '60s?

AVRAMOVIĆ: '60s, early '60s, mid '60s or thereabouts. I had gained the reputation of a commodity expert, and once you get into this field you stay with it.

My most serious involvement in this field occurred when the Bank was asked by the French and the African countries in 1967 to do a study on stabilization of commodity prices. Both the Bank and the Fund were asked.

KRASKE: Wasn't that part of the UNCTAD?

AVRAMOVIĆ: No. It was independent of it. UNCTAD were working on their own.

The Bank was asked to do the study and I headed the Bank team on the commodity issue; there also was a counterpart in the Fund. I ended up laying out the entire theoretical structure for commodity stabilization which I used later on in UNCTAD.

The history of this was that the issue was before the world in 1942, '43, before the Bretton Woods negotiations. [John Maynard] Keynes kept in mind three institutions: the Bank, the Fund and the commodity bank. There was much concern about commodity stabilization, with good reason. If you have countries that are financially insufficiently able to carry stocks, then they must sell irrespective of the price, and there is no limit to how far the price may fall. That in turn would reduce production, cause shortages and then you see prices go up dramatically.

What had really happened was that the developed countries facing this problem in their agriculture had coped in one way or another. They had not been very successful, but they had coped with it and ended up, both in the United States, in Western Europe and in Japan, with quite prosperous agriculture, maybe too prosperous. It also has its flip side, but in effect it has solved a massive social problem. But the developing countries with respect to both their internal production and their exports are absolutely unable to do achieve some stabilization either financially or organizationally.

Before the Bretton Woods Conference, the agreement was that we'd have these three institutions, but then the commodity institution fell through. What happened was that within the U.S. there was a massive disagreement. The British were all for it. Keynes was leading the British group and had enormous influence, so there was no problem on that side.

It was within the US. where you had people in the Department of Agriculture who were very socialist minded, people like Henry Wallace, they were all for restrictions, and they looked at the stocks with some doubts. So, they were for it. They were, in particular, for planning and restrictions on production, On the other hand, in the State Department you had the free trade people who didn't want to hear about these commodity agreements. Parallel with that, you had the idea of promoting agriculture in the world, which was the FAO [United Nations Food and Agriculture Organization]. There was such a confused situation within the U.S. government and [Franklin D.] Roosevelt lost faith with the demand for commodity stabilization. Cordell Hull and Anderson [Anderson, Clayton and Company] were against commodity agreements and the idea that you should expand world trade. So, they said, let's forget this for the moment and we'll go ahead with creating FAO, which is a production organization, and let the World Bank when it is set up cope with the commodity problem. This was the formal decision made.

The Bank was entrusted with the task, but it shied away from it. My last attempt was the 1968 study on which I had made some progress, but McNamara didn't want to pursue my proposal.

KRASKE: He didn't support it in the end. You prepared a proposal?

AVRAMOVIĆ: Everything was prepared. We had big arguments over this, and I think that he could and should have done it. It would have made an enormous difference in the Bank's conditionality and in its planning work.

But this is an area where I blame the international communities. We wouldn't have had the terms of trade problems affecting African countries. We would have had only half of the Latin American debt-related problems had not only the Bank but also the international community been involved in this in a serious fashion from the beginning. It was our capitalist bias: we are here to finance production not stocks.

KRASKE: It is interesting that today it is an accepted dogma, based on the adjustment experience, that countries which were blessed with raw material resources generally have tended to perform far worse than countries that were totally devoid of any resources. You look at Japan, Taiwan, you look at any of these countries and you see how they have done, but you look at oil producers like Nigeria, Venezuela, and you see the problems they have encountered.

AVRAMOVIĆ: Now, one result of all this was that UNCTAD had heard about the theoretical work which I had done and which had served us very well in Yugoslavia now. This was on the relationship between interest rates and commodity stocks, under what circumstances you hold stocks and under what circumstances you dispose of them. So, when they revived their commodity initiative they asked me to join them and asked the Bank to release me. So, I went to Geneva in '73-'74, and I prepared the work for the so-called Common Funds for Commodity Stabilization. It led to the creation of this institution, but it had insufficient resources and insufficient imagination because the developed countries fundamentally never embraced this issue. It was put to them in terms of commodity agreements, being either for it or against it, but it was a much broader issue which they failed to address. This is still the situation at present. [George D.] Woods had better understanding of this but he was not strong enough.

KRASKE: And Irving Friedman, I guess, was pushing in this direction?

AVRAMOVIĆ: No, he was against it. He was in favor of compensatory financing. He was in favor of reimbursing countries but letting prices go wherever they went. The problem was that the prices went where they went but countries did not get adequate compensatory financing. Had the Bank and the developed countries made commitments to take care of the commodity problems of the developing countries, it would have strongly influenced their policies, but this is one of the major jobs that was left undone. I don't think that the African situation would have been anywhere as bad as it turned out to be had we given same support to the commodity prices.

The Bank did a very good study on this, but only at the country level. [A. David] Knox, who knew Latin America, did help on setting up some facilities for the equalization of copper prices. He

created a fund for this, which was to move in that direction. But we did it on an individual country level, never at the world level. That was too much for us. The Bank didn't have this imagination.

KRASKE: You mentioned Woods and how he had some feeling for this and support for it. Can you talk a little bit about Woods, your relationship with him, and what he did in the Bank?

AVRAMOVIĆ: Oh, Woods was a very interesting and good man. He didn't have any formal schooling; you know that. He had come up through the ranks from the boy to the top man of First Boston Corporation. I didn't know him then. I knew Rosen; they were good friends and maybe we met through him, but I didn't really have any contacts with him.

When he came to the Bank, the Bank management didn't know what to do with the economics department. They hadn't really appointed anybody, so I was just in charge of it and the Vice President was Geoffrey Wilson. When Woods came, he called the ten senior staff in the Bank--and I was called since I was acting director--to discuss his speech which was prepared by the Office of Public Relations.

KRASKE: This was in 1963, I suppose?

AVRAMOVIĆ: Yes.

KRASKE: His first speech?

AVRAMOVIĆ: His first. They had prepared some lame document in which they said the world is fine: France was repaying its loans; the Bank had succeeded in the construction lending. I was by then already deeply involved in the commodity problem, and so I said that I would have done this speech differently. I pointed out that the developing countries faced problems very different from the developed ones. I pointed out that one of the problems of the developing world were these commodity issues such as the disaster which had affected coffee producers in '57-'58. I also mentioned that there was the whole range of problems in infrastructure and in industrialization and the issue of external debt.

So, he asked me if I would prepare his speech. And, of course, it was not only me who was involved. There were at least three people, and we had a battle royal as to what exactly his speech should say. Anyway, we produced quite a good speech. He already had his own ideas. He had come to the conclusion that a new financial policy was needed and that the Bank should increase agricultural and education lending. He also stressed lending to development finance companies. So, he had felt the need for change.

Now, this speech provided the background and served as a platform on which he based his initiatives. It was part a much broader program. As a result of my work on his speech, we became very great friends.

KRASKE: You didn't find it difficult to deal with him? There were number of people who complained.

AVRAMOVIĆ: No, I had a very good relationship with him for a good six months at least or a year. This didn't continue because his position was becoming weaker. He obviously had difficulties with the developed countries. Internally he was very torn. He had brought in Friedman from the Fund, I think at the advice of his former deputy at First Boston Corporation who was also his friend. Friedman and I didn't get along, although we did see eye to eye on the exchange rates issue. Friedman was very bureaucratic in effect. He was a Fund conditionality man, and I was always very reluctant with the conditionality stuff and therefore I had a very tense relationship with him.

Woods was a daring man, but he failed because he didn't get the support he wanted. One project that I was involved in with him was Algeria. He had the idea of developing the Algerian gas and oil, particularly gas, and carrying that through the Mediterranean pipeline to Central Europe and Eastern Europe. He headed this, I think, in support of Rothschild interests. That was his idea. He also had ideas of co-existence with the Soviet Union instead of conflict. I think on this he misjudged the situation.

Algeria was gaining independence, and there was much interest by the oil companies. What the Algerian government really wanted was help from the Bank in building gas pipelines and in hiring companies to manage not only the gas pipelines but also fertilizer factories and refineries. He wanted to help them, but I think he lost his support on this in the White House. Lyndon B. Johnson was President and he was, I think, influenced by the big oil companies--Shell, Esso--who were opposed to the project. So, the Algerian project fell through. There were also external political connotations to be considered and, as a result, the State Department was opposed to the U.S. assisting Algeria at that time. So, it didn't work out.

Woods ended up a very unhappy man, but he had excellent ideas. He had an understanding and deep feelings for these countries, more than any other Bank president I met. McNamara was an interventionist, while Woods was a much more humble person and approached the whole thing with a great deal of humility. Maybe the circumstances were too overwhelming for him on the one hand; on the other hand, maybe he didn't know enough about how governments operate. McNamara was a master at this; he knew how governments operated and how to navigate much better than Woods, who might have been shy.

KRASKE: Well, I hope you will read my chapter on Woods and will agree with it.

Let me ask you one question. Woods initiated an exercise which I think in a sense was very important. He did it for a very particular purpose, namely to justify a higher level of IDA [International Development Association] replenishment, but it also represented a shift in the Bank's lending. Whereas before the Bank had reacted to requests by countries to finance a power plant or an agricultural irrigation project, he asked what are the needs of the developing countries altogether? How much assistance do they really need, and then let's see if we can mobilize that amount.

AVRAMOVIĆ: I was quite involved in this. I did the capital requirement study. Whether the initiative came from Woods I have no idea.

KRASKE: Well, the purpose was to justify the second replenishment of IDA . . .

AVRAMOVIĆ: And the volume of Bank lending generally. I mean, he had these ideas, no doubt about it.

KRASKE: So I thought it was interesting that, especially if you contrast him with McNamara who is associated with the enlargement of the Bank and with its shift to more social issues and so on, in fact it was Woods who had all these ideas.

AVRAMOVIĆ: Absolutely.

KRASKE: But he was not very successful in trying to put his ideas into practice?

AVRAMOVIĆ: In mobilizing the resources for this. I agree with you.

KRASKE: That is what McNamara did.

AVRAMOVIĆ: Yeah. I even go further. I think the conceptual frame and the general attitudes which Woods had were--in my view--more impressive than McNamara's. But McNamara was much more technically capable of putting his ideas into a program and gaining support for it, even though its fundamental content--ideological, political--might be more doubtful. I think Woods in this respect had better ideas and kept cooperating with the developing countries.

KRASKE: Let me go back for a minute to your country missions. Now, the Algeria mission, that was a general economic mission?

AVRAMOVIĆ: Yes, but it was primarily for the investment program. That was the idea. It was the largest mission the Bank had mounted in response to their request and in response also to some European and French interests.

KRASKE: And this was something that Woods had assigned to you personally?

AVRAMOVIĆ: Yes, personally. Yes, very much so.

KRASKE: What about Nigeria? Now, you went there again later in the 1970s.

AVRAMOVIĆ: Well, following my involvements in the debt problem and in the commodity problem, which did not result in an operational program of the Bank, and with the appointment of Friedman and [Andrew M.] Kamarck as the head of the economics department, I was left on the side, if you wish. So, Woods appointed me Director of Special Economic Studies, which in effect meant that I was around for special assignments.

It was probably the initiative of [Abdel G.] El-Emary, with whom I had very good relations, which led to my heading the Nigeria mission and reporting to the consultative group.

As I was finishing my commodities work, there was a request from Iran for my services from [Abolghasem] Kheradjou, whom I knew very well at one point. He wanted me to come to look at their operation and advise them on the industrialization of Iran, which [I. Peter M.] Cargill then supported. So, I did a study of the industrialization of Iran, which also became very successful because of the way it dealt with the issue of protection. It was a matter of establishing the level of protection, how to start with the minimum protection and go up and up until you reach full employment. That led immediately afterwards to my involvement in Pakistan, a study of the industrial structure of Pakistan and Westernization of Pakistan.

So, I did these two industrial studies.

At that point, Mervyn Weiner, I think, became director of evaluation, so Gerry Alter asked whether I would become economic adviser in Latin America since I had spent several years on Latin America, leading studies on Brazil, Peru, Argentina and had helped in Chile and Central America. So, I had been involved in at least 15 country studies or thereabouts. Some of them ended up in books. The study on Colombia was published both by the Bank here and by the Colombians in Colombia; the one on Iran was published in Iran.

I call these Bank studies, country studies, an acquisition of capital. You learned an enormous amount on mission. In contrast, time spent here in Washington I thought was expenditure of capital. The real knowledge was in the countries themselves, so I was very anxious to be involved in that type of work.

KRASKE: Now, earlier on you referred to some arguments you had in that period on what was the right approach to development strategy.

AVRAMOVIĆ: There are three things I meant to say. I was quite concerned about the terms of commercial borrowing, then I had commodity concerns, and the third issue which I felt quite strongly about was the need for much more rapid industrialization than the Bank doctrine—more than the majority of Bank economists and operations officers--was prepared to entertain. In connection with that, I was in support of high rates of growth. But I had difficulties with the Bank's conditionality, with its intrusive nature, its arrogance, and its effect on country relations.

More broadly, as I had done this ground work in the commodity field and on the country level, I had developed views on policies which were to the left of the Bank. That was the period of the Bank's very heavy neoclassical influence represented by Helen Hughes and I don't remember who else, as there were several other people then, and I resisted this trend which I thought was unnecessary and an enormous irritant. I continued to work but it was obvious that I had a distinct point of view of both the debt and the commodity problem and also of the country attitude problems.

Now, this ended up with my leaving the Bank, although the reason for that was that I was asked to join the [Willy] Brandt Commission.

KRASKE: Before we get to this, I find this peculiar because if you look at the Bank and its orientation, if you will, ideological orientation, the Bank was never further left than it was during the McNamara years.

AVRAMOVIĆ: But it wasn't really. The Bank was expanding, and I don't think you can call it left leaning.

KRASKE: Well, McNamara accepted that we would lend to state enterprises; he was not great on conditionality; he believed in the central role of governments.

AVRAMOVIĆ: He was very much in favor of conditionality and of the Bank running things. He believed in doing things for developing countries not with developing countries. But he didn't really get the Bank to carry out any major reforms.

KRASKE: At the same time, he was a firm believer in doing something and, if the countries resisted, he was not willing to stand up and say only on those conditions will we assist. He would flexibly adjust.

AVRAMOVIĆ: He was in favor of doing something. He raised the volume of lending. He didn't have a conception such as meeting the developing countries and their wishes half way. Why did he refuse to get involved in the commodity issue? That was the thing which we had really wanted. That's why UNCTAD was set up. He was the type of person who should have understood it and he would have been able to organize change and maybe manage support for it. He was very heavy on rhetoric, but when it came to doing something real, he was very reluctant to do it.

The other thing which the developing countries wanted, he did make concessions on the state institutions lending. But he was very reluctant get into minerals and petroleum developments. These are the crucial issues because it is on these issues where the division of the cake between developed and developing countries rest. So, his socialism was of a very limited and peculiar nature, He never got himself deeply involved into the full understanding of the problems.

KRASKE: But he was there with [Julius] Nyerere taking in every word, or with Mrs. [Indira] Gandhi where he was hanging onto her every word.

AVRAMOVIĆ: I don't know that. As I say, looking at it from my perspective on what the priorities were, he struck me as reasonably conservative.

KRASKE: Now, you said you left in the early '70s on loan to UNCTAD.

AVRAMOVIĆ: I came back, and I became Director of the Development Economics Department after a year and a half or so. The idea then was that I might go to South Asia to be Economic Adviser to Ernie [Ernest] Stern, but I wasn't enthusiastic about this, so I ended up head of the Development Economics Department.

KRASKE: With Hollis Chenery? How did you get on with Hollis?

AVRAMOVIĆ: We got along quite well. I thought that he yielded too much to the neoclassical tradition. That neoclassical tradition gained weight peculiarly under him and McNamara. It wasn't there before that. That's where the Bank got the ideological tinge which may not have been felt in its country relations and country operations, but on the world scene it was very pronounced, much more than it ever was before.

And then came, of course, the initiative to set up the Brandt Commission. The developing countries suggested that I become Director of the Secretariat while Goran Olin was the Executive Secretary, and they asked for my release for a couple of years to work with the Commission.

KRASKE: This was Willy Brandt himself who said I want Drag AVRAMOVIĆ?

AVRAMOVIĆ: He did say that because he was advised by the leadership of several developing countries that I was the type of person whom they would like to see there to direct the staff. By then I had acquired a name and a reputation among the developing countries both because of the debt and the commodity problem. But I had also fairly strained relations with McNamara on the commodity issue, and he didn't like the fact that they had asked for me.

KRASKE: I suppose his relationship with the Brandt Commission was somewhat strained. He had initiated it and had made the initial proposal, but then Willy Brandt picked up the idea and pretty much ran this thing on his own, referring much more to the U.N. than to McNamara. That is the sense that I get from looking at the study itself.

AVRAMOVIĆ: Yes, McNamara had probably in mind having control over what was being done. I think he suffered from this. He wished to control everything. The incredible things that he would do. He would get involved in indexation of prices, for example, over the phone. The last thing in the world for a President of the World Bank. Unbelievable! Producing all kinds of charts, country tables and the like. He already had on the Commission two people whom he had directly picked: Kathy [Katherine] Graham from the *Washington Post* and Peter Peterson, who was a very smart and intelligent man. I think it's true that McNamara thought that he would run the whole thing with his iron hand much more than what turned out to be the case.

On the Brandt Commission the issue was, when you take the Bank, what was lacking in the financing tools used by the Bank at that time. There were six.

Gap one was at that time program lending. We had not done that, and McNamara was not in favor of it. Then there was debt reorganization lending, commodity lending, lending in support of exports of industrial goods of developing countries, in support of mineral exploitation, and cooperation with developing countries.

These were the six gaps which we identified in the work of the Brandt Commission which fall within the Bank and also the Fund. The fundamental reasons why there was no support for the activity was that the developed countries or their leadership were unwilling to ask for assistance, or that they didn't try hard enough. Everything that happened since the Brandt Commission pushed the Bank into this direction, but without real leadership. It got into minerals because of the oil price increase; otherwise it wouldn't have helped countries to develop their copper resources. McNamara was pushing Peru and Chile to request Bank assistance. I was still in the Bank when the Bank refused to lend to Peru until we forced them to make a deal with Chase Manhattan Bank.

Dragoslav Avramović
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So, the Bank didn't support mineral exploitation; it didn't touch the debt problem until the [Nicholas F.] Brady Plan came in. It never got into the support of commodity stabilization. It was pushed into structural adjustment lending, which was really the mechanism for the countries to pay debts and to bail out the banks, in effect, to a very large extent.

So, these were the things which the Bank or McNamara could have done much earlier. He didn't do it. He was operating much more along the already established lines of activity rather than trying to do something which would have really put the Bank at the center of events, not only as a capitalist institution but as a go-between institution between developed and developing countries. I think the Bank never managed to do that. Maybe [James D.] Wolfensohn will do that; I don't know enough about him. He's making very interesting speeches. But at that time the Bank ended up very much in the developed countries' camp by not meeting any of the fundamental demands of the developing countries.

KRASKE: You eventually accepted the position as the Secretary of the Brandt Commission and McNamara forced you to resign from the Bank?

AVRAMOVIĆ: Yes.

KRASKE: Following the Brandt Commission you stayed on in Geneva for some time.

AVRAMOVIĆ: Yes, in Geneva. I stayed with the United Nations and worked at UNCTAD, at another private bank, and at the Central Bank in Belgrade.

KRASKE: Right. Now, talk a little bit about how you look back at the period that you spent at the Bank and what this did to your outlook on what works and what does not work in development.

AVRAMOVIĆ: Two things. First, looking back it was an enormous experience at the professional level. The thoroughness of its investigations and the access of the Bank to

information and knowledge was most impressive. It leaves an impact on you which everybody recognizes. Second, more interesting, as Governor of the Central Bank I had had the experience of practicing what I had studied for two years. I am a much more conservative person now than I was.

KRASKE: Is that because of the influence of the World Bank or because you've grown older?

AVRAMOVIĆ: Grown older. Not only that, but there is more of an understanding of what you might call the Bank-Fund attitudes than I used to have when I was within the institutions. Not that I've forgotten or forgiven anything, no, but I look at the conditionalities with much less stringent eyes.

KRASKE: I suppose that has to do to some extent with your most recent experience.

AVRAMOVIĆ: Of course, it's inevitable. The immediate reason why I left was because of all the problems over re-establishing the relations with the Bank and the Fund, so I had arrived at the conclusion that without them we can't live. We haven't got a chance of reconstructing the Yugoslav economy without getting involved with the Bank and the Fund and their direct assistance and there is absolutely no way of going around it. So, from a great inside critic of the Bank and the Fund, I've become a protagonist who has had relations with both the Bank and the Fund as much as one can possibly get it. There is no other way.

KRASKE: I see there is a *Reuters* clip which has a report from Belgrade where people expect that this fall, perhaps at the Annual Meetings, they hope to complete negotiations for membership.

AVRAMOVIĆ: This was advocated to have been done nine months ago. We do it awfully late.

KRASKE: Now, can you talk a little bit about how you see the Bank as a client? As an outsider who looks to the Bank for assistance, do you see the Bank as a helpful agent?

AVRAMOVIĆ: Oh, absolutely. I thought that the best things which could happen to us would be for the Bank to help us mobilize external resources which we need, and we'd have to meet whatever demands the Bank would have with respect to internal policy, no other choice.

KRASKE: Well, I can see that, but I mean do you think that the Bank is a sensible organization or is it excessively bureaucratic?

AVRAMOVIĆ: Well, I haven't had enough experience with the Bank in the last several years. The brief experience which I did have in March, negotiating the conditions of membership, was most friendly and full of understanding. I was very impressed, so I have no misgivings. I think the Bank has in a variety of circumstances taken care of the external financing requirements of individual countries extremely successfully.

KRASKE: Now, finally, would you say that you have become a more conservative person as a result of your work in the Bank?

AVRAMOVIĆ: As a result of my work in Yugoslavia and more so as a result of the work in the Bank.

KRASKE: Yeah, but can you say when you look back at the ideas that you had about development, what you thought was critical to development, to successful economic development, the priorities in economic development, has that shifted in the course of time?

AVRAMOVIĆ: I don't think I can say much about this. Not really. I can't say much about the latest Bank trends and its thinking. As I look at it, if tomorrow I was to manage the economy of Yugoslavia again, what I would do is to rely enormously on the Bank to help me mobilize resources. And with respect to the philosophy of development, my philosophy is not very closed; we must move towards privatization.

KRASKE: Yes, you do agree that greater emphasis on the private sector is ultimately inevitable.

AVRAMOVIĆ: I am for it. I was just writing something about it this morning. I am for widespread workers' ownership, ownership by pension funds, but we must get into privatization.

KRASKE: And, those workers have to act like private owners not like extended functionaries.

AVRAMOVIĆ: That's the whole idea. They can't. They just have to be shareholders, period.

KRASKE: But the problem in Yugoslavia—I've never worked there, but the few things that I've read about it--was to some extent that while you had ownership by the employees all along, they didn't really control anything.

AVRAMOVIĆ: They didn't have any control. The government all along exercised much more controlling influence in management. The general management were political appointees, and this is our problem. This is our central problem, and that must be changed.

There is no other way of changing it but converting state enterprises into share companies and opening them to privatization. Within this you have shareholders. I say there is no other way. You give 25-30 percent of the shares to the workers, 10 percent to the pension funds, and the rest to the capital market.

So, I would have no difficulty with that part of the Bank program, nor would I have difficulty--and this is what I have been arguing--with the need to have total liberalization of the economy and of trade after successful fiscal stabilization. So, I would have no problems with the approach advocated by the Bank and the Fund today.

KRASKE: Well, thank you, Drag. This has been very interesting and a great pleasure.

[End of interview]