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CALIFORNIA INSTITUTE OF TECHNOLOGY
PASADENA, CALIFORNIA 91125

A CONVERSATION WITH IRVING S. FRIEDMAN, IV

WASHINGTON, D.C.

July 22, 1985

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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Robert W. Oliver

OLIVER: We were talking last week, Irving, about the role of the Economics Department and the people who served in the Economics Department, but I think we didn't pin down some of the important achievements in that period of time. It might be well, therefore, to begin our conversation today by my simply asking you to say a bit more about the Supplementary Finance Scheme, which was a major undertaking of that time, and, if it is appropriate, how that proposal differed from Sector Adjustment Loans, which are being made by the Bank today, and from other schemes which approach balance-of-payments or program, as distinct from project, financing.

FRIEDMAN: Supplementary finance was one of the first assignments on my desk when I came to the Bank in '64, and it remained an active assignment until 1969 or 1970. Woods was in the Bank, and it was one of the most important things we were doing. It was not as important as the IDA Replenishment -- I don't want to exaggerate; but, at least in the economics work, and also in the general activities of the Bank, it was a major activity which was going on. You will excuse me if I describe some of these things in some detail. I don't know whether history will regard it as a minor event. It was not a minor event at the time.

One of the few things that was agreed at the UNCTAD Conference

unanimously was the resolution proposed by the United Kingdom to the effect that something had to be done about the problems of developing countries which found themselves with a decimation of their development programs because of sudden short falls in their export earnings. This was clearly related to the problem of commodities and terms of trade which had been one of the major issues well known and studied for decades in development economics and development finance.

The resolution was, as I understood it at the time, a compromise between those who wanted to deal with commodity problems through international commodity agreements, like the Coffee Agreement or the Sugar Agreement, and those who did not want to deal with the commodity problem and felt that any attempt to stabilize prices or the earnings of commodity exports was really poor economic policy. The latter countries agreed that commodity stabilization was not in the best interest of developing countries. This had been a raging intellectual argument for a long time, and out of this UNCTAD conference, which I did not attend, came this resolution on unexpected export short falls. (I had been familiar with these controversies from my previous experience.)

Well, the resolution had been worded in such a way that the World Bank was asked to do a study about this. We were asked to evaluate the proposal and make recommendations to the UNCTAD. We could not take the unanimous vote of the UNCTAD resolution as indicating that all member countries were prepared to do something along the lines of the resolution, but that they were prepared seriously to consider a study and recommendations by the World Bank.

People who were present told me, and from the written records of the UNCTAD it seemed pretty clear, that it was expected that if something was to be done, it would be something that the World Bank was going to do. It wasn't a question of making a study for somebody else to do something. This had a lot of importance for the future, because of the questions: "Why isn't the International Monetary Fund doing this?" How does it relate to the Fund's Compensatory Financing Scheme in which I had been quite involved when I was in the Monetary Fund.

This resolution of UNCTAD was in the spirit of finding additional ways of providing development finance for the developing countries. Indeed, reading the legislative history of the UNCTAD conference and talking to people who were deeply involved, it was fundamentally thought of as a way of increasing IDA-type funds, i.e. not only long-term development finance, but on very concessional terms. This was a period of time when people were thinking about how ways and means might be found to expand the flow of grant-type funds to the poorer developing countries. This is essential to an understanding of the discussions, analyses and negotiations on Supplementary Finance.

At this time, Prebisch was the head of UNCTAD, I had known him for many years, and I knew that he was hopeful that, within the framework of this Supplementary Finance Resolution, it would be possible to find additional ways to provide development finance for the development countries, more particularly on a concessional basis. He saw the opportunity for creating another vehicle for development finance, and

it was in that spirit that we tackled the subject.

It was tackled by just a few of us in the Bank. It did not become a general project of the Bank. I had a small group of about three or four people, who worked with me on it. They were my think-tank research arm. We discussed our thoughts with other people in the Bank, but it did not become a general activity in the Bank. It was a good example of what I was doing in the Bank because, as I think I mentioned to you before, I was not doing things which the Bank was already doing.

The proposal itself came out as a Bank staff study, not in the names of the authors. I wanted to be able to say that it was a study that had the backing of the World Bank and was not just an individual proposal. I forget how long the study took exactly, but I'm sure it was at least six months.

OLIVER: May I interrupt to ask who were the other members of the economics staff who worked with you?

FRIEDMAN: The ones that I remember, and I have a feeling that I may not have remembered all, were Thalwitz, who is now a Vice President for Africa in the World Bank, and Ravi Gulhati. I have a feeling there was a third person also, whose name escapes me. Of course, as in all these things, I talked to Andy Kamarck. In a sense, Andy was sort of a common factor in anything that I did at that time.

The basic approach in the study was that in development planning it was necessary to have a view of what export earnings were going to be. From the projection of export earnings, many other projections followed. Just as with a capital- output ratio, it is one of the basic assumptions in any kind of analysis or of any kind of modeling. The projection of export earnings was a basis for planning even if it proved inaccurate. We did a considerable historical investigation and found that the projections used had proved not to be particularly accurate even though, at the time they were made, they were thought to be well made, carefully made. Because of the uncertainties and difficulties in making such projections, countries found themselves, from time to time, in difficulty, because their export earnings were not as planned and there had to be adjustments in their development programs. The question was "How can we adjust in such a way so as not to disrupt the development programs?" Well, I won't summarize the proposal for you, because the proposal is a document that you can read. You can see for yourself what you think of it. It was published.

OLIVER: In what year?

FRIEDMAN: Oh I would say, 1966.

OLIVER: And could I also ask, what was the year of the UNCTAD Conference that requested this study?

FRIEDMAN: 1964. The first UNCTAD Conference was in 1960, but I think it was the '64 conference that actually passed the resolution. It happened before I came to the Bank. The date has to be checked out to be certain, but the resolution had been passed before I arrived at the Bank.

OLIVER: Did you have a feeling that Mr. Woods had a pro or con attitude toward it?

FRIEDMAN: I discussed it thoroughly with him, and he was very much in favor of it.

OLIVER: Of doing the study?

FRIEDMAN: Well, of doing the study and of the proposal we then made to the UNCTAD. We welcomed the notion that it was something that the World Bank would do. He thought the World Bank ought to take a lead in this kind of thing -- in intellectual discussions and policy leadership. He also liked the idea that it was going to become another reason for expanding IDA. In the meantime, we were getting into the IDA discussions which we can talk about separately. It was, as he saw it, an additional reason for expanding IDA.

I also found him completely supporting the idea that the World Bank ought play a role in influencing economic policy in different countries, which was an intrinsic part of our Supplementary Finance Program. He accepted the idea that to have influence, it was necessary to be able to help the countries. Supplementary Finance was one of the vehicles that would provide the Bank an opportunity to have an important role in the macro-economic management of its borrowing members. Beyond project and sector management, the Supplementary Finance scheme was an invitation to the Bank to be concerned with what happened to a whole development program in case of adverse changes in the external sectors of a country -- a frequent occurrence in developing countries.

OLIVER: Did you agree that this was an activity that the Bank should take on instead of the Fund? or in addition to the Fund?

FRIEDMAN: When we made the proposal, we found that we aroused some hostility on the part of certain elements in the Monetary Fund. I never did find out, Bob, how wide-spread the hostility was, but it got personified in one or two persons in the Fund, who went to the UNCTAD meetings: especially Marcus Fleming. There were many UNCTAD meetings on this matter. I was asked to address sessions of UNCTAD both in New York and abroad on this subject. A number of special meetings of UNCTAD were held just on supplementary finance, and at all these meetings, the Monetary Fund was, of course, asked to come as well as the World Bank.

At all these meetings, people came speaking to me as to why Marcus Fleming, who was the Fund man on these things and went to the UNCTAD meetings, was going around denouncing this program. He was denouncing it on the grounds that it was of no business to the World Bank. The World Bank was not in the business of advising on macro-economic management. That was for the Monetary Fund. There already existed a facility which, as he pointed out, "Irving, had a great deal to with the adoption of this facility in the Fund." He reportedly asked why I was now doing things which were going to undercut the Fund and weaken its influence?

An instance which came later on -- I'm not sure of the time -- Frank Southard, the Fund's Deputy Managing Director, whom I had known from the 1940s, called me to say -- I forget the exact words, "You have betrayed the Fund. You used to be one of its strong advocates and now you're trying to build up the Bank through Supplementary Finance." My answer to Frank Southard at the time was, "If the Fund felt so

strongly, why didn't they increase Compensatory Financing and try to make Compensatory Financing an adequate substitute for Supplementary Finance?" At the time, the Fund was not expanding compensatory financing. Well, in a short period of time, the Fund decide to have a big increase in its compensatory financing.

OLIVER: Was this in the late '60s?

FRIEDMAN: This was about '67 or '68. We had the strong support of the Scandinavian governments, of the German government, of the Swiss government, the British government and others. We had a majority of UNCTAD, of the developed countries as well as developing countries, on our side. We came very close to having this scheme accepted internationally.

The weakness was on the U. S. side. Tony Solomon was Assistant Secretary of State for Economic Affairs, and I had many discussions with Tony. Tony was influenced, not by concern for the Fund, but by an economic argument which was pushed very hard by Ed Mason. There was a book that had just come out, whose name I forget, published at Harvard, which was to the effect that it was good for countries to have volatility in their export earnings, because this meant that the market mechanism was working. Countries would have to adjust to changes in the terms of trade, and this was desirable from the point of view of inducing the right kind of economic development.

OLIVER: That sounds like the old argument for unbalanced growth.

FRIEDMAN: Exactly. Actually, at that time, I contributed a book review of a book by Paul Streeten, on balanced versus unbalanced growth. I became deeply involved in this, continually giving lectures on the question of export-earnings, and volatility on the development process. I'm sure that at least 30 percent of my time at this point in the World Bank was devoted to this subject -- in every aspect: academically, politically, and negotiating as well as trying to do a study within the Bank.

OLIVER: In your mind today, is this kind of activity properly more a function of the Bank or the Fund?

FRIEDMAN: Supplementary Finance is a proper function of the Bank and is not competitive with the Fund. The Supplementary Finance Scheme was based on the understanding that help to developing countries in external assistance, had to be on terms which were suitable to that borrowing country. The short-term Fund assistance is too short term for developing countries. There is nothing new about this now, but in the 1960s, we were still evolving a better understanding of development finance.

The time needed by a developing country to repurchase from the Fund, unless it was to be repurchased with borrowed funds, was often not three to five years. Much was written to Jacobson on this point of needing to extend the time period to repurchase obligations in the Fund. I advocated that the assistance provided by Supplementary Finance be development finance.

This, of course, is an issue that exists to this day, because no equivalent to supplementary finance has ever come into existence. All the compensatory or balance-of-payments schemes are still based on the

notion that a balance-of-payments position can be reversed or can be at least improved greatly in the short run; and what is needed is short to medium term financing. Even the Fund's Extended Fund Facility, which is exceptional, spends in terms of a seven-year period of time for repurchase or repayment.

The Supplementary Finance Scheme was critical. It wasn't just another idea. It brought to the surface the whole question of the appropriate way of giving balance-of-payments support to a developing country. Should it be done without relating financial aid to an agreement on macro-economic management? The answer of our study was: It should be related to economic management, but it must be on a longer term. The link to management was the evaluation of the development program policies and practices. This involved a country's strategy, planning the investment program, etc. The Germans suggested that the macro-economic aspect be a joint activity of the World Bank and the Monetary Fund together. They submitted a paper to this affect. The World Bank quickly accepted their suggestion as a desirable amendment to our proposal. Indeed, their amendment was accepted by all. The country assessment would be a joint activity done from both a monetary and a development point of view. Yet, for individuals in the Fund, that wasn't good enough. What they were saying was that the World Bank had no role in this activity.

This Supplementary Finance proposal was very active in the UNCTAD until after Woods left. It was finally put on the shelf by McNamara.

OLIVER: It sounds to me like this Supplementary Finance Scheme was related to variations in export earnings that were not solely confined to changes in commodity prices. Most commodity price changes are in fact business - cycle kinds of changes and, therefore, shorter term. So there must have been other elements beside the UNCTAD proposals about commodity changes which were subsumed under the changes in export earnings.

FRIEDMAN: What we were essentially saying, Bob, was that, a development program, always started out, as I said before, with a projection of export earnings. Some favored five-year projections. Others, as you know, favored even longer-run projections even if they were just indicative, It was necessary to have some planning framework, and the expert projection was the bases for planning. How accurate had these projections been? What had actually happened in the experience of countries? In fact, we measured the variations from these projections. It gave us some idea of how big the scheme would have to be to be able to do the job. We found out, as you suggest, that there wasn't a single cause of export short-falls. There were many causes. The commonality was that there was a significant shortfall in earnings compared to what had been planned, and the shortfall could not be forseen. The funds provided under the Supplementary Finance Scheme were to be used to finance an export shortfall of a material nature if it happened.

Another aspect in this matter of whether Supplementary Finance was needed in light of the Compensating Finance was that the Fund program was not defending development. I knew that we in the Fund were not in

the business of defending development. We thoroughly believed that by good monetary and fiscal policy and good exchange-rate policy, a much better environment is provided for sound economic growth. These ingredients advocated by the Fund were good for growth, but when the budget had to be cut or credit expansion restructured, it was often found that the softest area, the easiest way was to cut expenditures on investment, cut credit to the private sector, cut credit to development projects. The government often placed a much higher priority on non-developmental expenditures and purposes than they did on development, even though they were poor developing countries.

It was that kind of experience that we had in mind. We were trying to help create a situation in which the emphasis would be on the defense of development. In fact, in some academic articles that I wrote at the time, I labelled the articles, "In Defense of Development." It was under that sort of rubric that I wrote about the Supplementary Finance Proposal. I like to think it had a lot of intellectual influence as it permeated the thinking of UNCTAD and all the representatives that came. We had a number of conferences stretching over four or five years in this field, and there were lively discussions at all of them.

In the end the opposition within the World Bank staff came from persons who said that the Scheme was not compatible with project finance. Indeed I tried -- it is somewhere in the files of the World Bank -- I tried to write some memoranda indicating that it would be possible to have a shelf of projects which would otherwise not be financed, so to speak, or which would be financed in a higher proportion of local-currency financing, but the project technique would be used to provide supplementary finance. It was simply an attempt to reconcile the very strong pro-project financing bias of the Bank with trying to achieve the purposes of the supplementary scheme. This issue became acute with McNamara.

At one point under McNamara, we were really within the grasp of the whole thing. If the World Bank had given a green light, we would have had a Supplementary Finance Scheme operated by the World Bank. By this time the Compensatory Finance Scheme had been increased, but it is increasingly clear that the Compensatory Finance Scheme was no substitute for Supplementary Finance. Also, by the time McNamara came, we were in a pretty favorable atmosphere for considering a large increase in IDA. President Johnson and then President Nixon were basically pretty friendly to development and development assistance, and under McNamara we had a very strong champion. So we were in a good position to get new things agreed to. But Bob didn't like the Supplementary Finance Scheme. I remember having lunch with him. Have I told you this about my lunch with Bob on this matter?

OLIVER: Bob McNamara?

FRIEDMAN: Bob McNamara. It does illustrate the whole issue here of the economics of the Supplementary Finance Proposal. He spoke along the following lines: "What you are talking about is balance-of-payment financing. That's what it is. You can call it all sorts of things, but it's balance-of-payments financing; and it gets its validity from

the influence you have on economic management. Can you give me a precise cost-benefit analysis of economic management, of the influence you have on countries through balance-of-payments lending?" I told him," No, I know I can't do that." And he said, "Well, you can give me a cost-benefit analysis of project financing and you can't give me cost-benefit analysis of balance-of-payments lending. I prefer to lend on the basis of a precise cost benefit analysis."

He did not want to lend the support which George Woods was willing to give. We had gotten very far because everyone knew that I had the support of the President of the World Bank. Woods strongly supported our efforts even though he did not put the Scheme to the Board for its formal adoption. He felt that the political issue should not be debated, argued and resolved in the World Bank, that we ought to give the political issue to UNCTAD.

We asked the Board formally to agree to the transmission of the document as a staff recommendation to the UNCTAD. Even that caused quite a bit of stir and discussion, but the Board finally let us transmit the study and recommendation as a staff recommendation to the UNCTAD. It was never decided by the Executive Board of the Bank. It would be wrong to say that, because they allowed it to be transmitted, they supported it. The political decision was taken in UNCTAD, and that's where we met the opposition, weakly of the United States and strongly of the French. The United States wasn't quite sure of its position. One of the arguments made at that time was: Maybe it will make it more difficult for IDA replenishment instead of easier.

Obviously that was a position that someone could hold. It wasn't my position.

In the case of the French, it was more that they had always believed in international commodity agreements. They urged that the way to handle the commodity problem and the volatility of export earnings was by international commodity aspects. They so advised the Francophone countries in Africa, and this was the last group of developing countries to support the scheme. They finally did, but they were the last ones to come around in giving support.

Again, I think, partly it was the times. The long considered international Cocoa Agreement was being discussed, but it never came into existence. The French were consistent in their support of international commodity agreements, but the other countries were simply not following their lead. Therefore other devices were attractive to the other African countries. They were the last to come on aboard. By the time 1968 rolled around, the developing countries were all on board with very few exceptions.

OLIVER: What was the year when the study done within the World Bank was submitted to UNCTAD?

FRIEDMAN: I would think, Bob, I would have to check it out, by 1966.

OLIVER: That early?

FRIEDMAN: Yes, oh yes. It was actually under active international discussion for about three years.

OLIVER: To play the devil's advocate, if the World Bank is trying to decide what level of export earnings is correct for a given developing

country to have and, therefore, to be prepared to support supplementary financing to offset some sort of decrease in the correct level of export earnings, doesn't the Bank put itself in a position of being a really super international planner -- manager of fiscal policy, manager of monetary policy, manager of exchange-rate policy for the given country -- so that it can decide that the country is or is not entitled to the supplementary finance?

FRIEDMAN: There's a lot in what you are saying. Remember, however, the Monetary Fund is doing this already from the monetary viewpoint.

OLIVER: But not in that much detail.

FRIEDMAN: The Monetary Fund is implementing it's policy: let's call it "Conditionality." For your purposes, I would be glad to elaborate, but I don't think you want me to elaborate on Fund conditionality. They are involved in judgements about the adequacy of macro-economic policy for balance-of-payments management of developing countries They consider whether central banking policy is adequate, fiscal policy is adequate, wage policy is adequate, internal pricing policy is adequate; the Fund already is involved in these different aspects of economic management on the macro-economic level. So the question is: Should the Bank also become involved? As I said before, to me the justification was that we would be involved in it at the World Bank because we were concerned with the defense of development rather than with short-run balance-of-payments management.

One of my strong points is that it is necessary to deal with the problem of uncertainty. It is not possible to know what export earnings are going to be, but a planner is caught with the need to make a judgement. A development planner has to put in some export earning projections. This is done already. The difference under the Scheme would be that this projection would be reviewed by the international community.

I had gone through a similar experience with the Monetary Fund. It wasn't just the Monetary Fund staff that focussed on its programs under Article VIII and Article XIV. It was the experts of the countries that came up with their judgements. The experts would have an interest in having a job well done. All the experts would be focussing on the export projections. They would in the end say that they thought it is reasonable to use an export projection as a basis for getting assistance. What you would agree to was not that this projection was necessarily correct, but that it was a projection that could be included in a development program worthy of international support in case that projection didn't prove to be a correct one. That was the way we tried to think it through.

OLIVER: Before we go on to a discussion of IDA, which is the next logical question I think, let me ask in passing what you think of the economics work that was done in the Bank when you were the The Economic Advisor to the President in contrast to from the economics work that was done later under Mr. McNamara.

FRIEDMAN: Our main function was to bring a concern for macro-economic analysis at the country level and general problems like commodities, supplementary finance, and external debt and to integrate it all into

the decision making process of the Bank -- whether it was a request for IDA funds, or lending operations or technical assistance. I think that, by the time McNamara became President, this work had really been quite well advanced. We had a good staff. Obviously, there was always room for improvement, but it was well beyond the initial stages when this still was very controversial within the Bank itself as to the appropriateness of the Bank's doing this.

I think the one thing that I felt at the time that I had not been successful in was in persuading Mr. Woods and the other people in the Bank that we wanted to do more long-term basic research. I found receptivity to the idea that we could provide financial support in the academic world, and we began to do that. Andy Kamarck was the one who went around and made himself available to people in the academic world for some kind of financial support.

When it came to actually recruiting a permanent long-term research staff, which I had tried to promote with Guy Orcutt, I found that I got resistance everywhere in the Bank and no strong support from the President. Because he supported me somewhat, we had the beginnings of such a program. We had the beginnings with half-a-dozen people. This was when the economics staff is probably more like 80 or 100 people. I could not make an offer to Guy Orcutt, as I wanted to, to have a permanent position on the World Bank staff, because I felt I just didn't have a job to offer him that was really competitive to what he had at Yale. So he stayed in kind of a consulting position.

I think that by the time 1970, 1971, '72 rolled around, the World

Bank was ready for a major role in the field of long-term academic-type research. This was the time also, by the way, when the academic world was beginning really to feel the squeeze of accelerating inflation and the difficulties of raising funds for long-term research. They were welcoming the role of the World Bank in this. It was very logical that the next phase of development in economic work was very largely of a research nature. The problems of the developing countries are so acute these days that it isn't at all surprising that the economic staff of the World Bank is again working on the problems of individual countries.

I could hope that the long-term research would be supported. I think that probably one of the heritages of the last 10 years is bringing the academic approach more into the regular work of the World Bank. I would think the country work of the World Bank today is better than when I was there. It has melded the impact of more people who think in academic terms. Applying it to country work produces a better product.

OLIVER: When you use terms like academic work or long-range research, are you talking about work that has little operational significance as far as the Bank is concerned?

FRIEDMAN: Not <u>little</u> operational significance, but where the need for the research for current operational purposes is not as obvious. The work of the Bank could be done without it, so to speak, and the usefulness of the work is more problematic. It is hard to be that sure after having spent one, two or three years in investigating something

that it will have the expected practical applications. When we decided to do our three-layered model of the oil industry in Mexico, we were hopeful that some day it would be useful. We weren't sure, however, that it would be useful in the Bank. What we were sure of was that it would give development economists a richer insight into the development process.

Much of the long term research in the Bank of the kind that we have just been talking about is really a kind of a vote of confidence that, if you do more long-term research, the World Bank, as an operating institution, will eventually find it useful; or at least the developing world will find the product useful for an understanding of the development process. This is the kind of a vote of confidence in long-term which is not always easy to get.

OLIVER: You think it made sense for there to be a division of economists, some being in an Economics Department <u>per se</u> and special economic groups, and others being country economists in the various area or, the Projects Department?

FRIEDMAN: I felt at the time that the economic staff ought to be one staff with different assignments. An economist might find himself assigned to a geographical function, like a country, or to a function like debt or long-term, projection analysis, or research. I wasn't eager to have a separate research staff. I wanted people from the economics staff who would do long-term research, but, after that, would come back and do something else. I felt at the time that this even applied to project economists. I didn't accept the idea that there was something separate called "Project Economics." As far as I could see, it was a straight-forward application of matters studied by an economist, except that it was being applied to investment analysis -- on the micro level. I was in favor of one staff with common professional standards, the individual assignments being quite different through the Bank.

I got this partly accepted in theory, shall we say accepted in principle, and to a certain extent accepted in practice. We had a review function of all papers going to the Board on individual countries. It became partly my job. If I or Andy didn't agree -- if we found fault with the economic analysis that was going up to the Board -- it was our job to intercept it before it got further and to bring it into the Economics Committee or in some other way to review the work and try to have it conform to our standards. It's not the same as having a uniform staff. Their promotions, their titles, their status in the Bank was not clearly seen, I think, as being my responsibility, the responsibility of The Economic Advisor to the President or his deputy, who was called the Director of the Economics Department. Their careers were more determined by the value put on their work by the heads of the geographic departments, and that remained an ambiguity.

OLIVER: In the work of the Economic Committee, did you receive equal cooperation from the Area or Project Department economists as you did from the economists in the Economics Department?

FRIEDMAN: I would say nearly always. Yes. The answer is basically,

Yes. Issues of cooperation didn't divide along those lines. There were always some economists everywhere who were skeptical about this expanded economic work in the Bank: people like Hugh Collier and Tommy Thompson and Ben King, all able people. We got along well and respected each other, but they thought that it was wrong of the Bank to be that much concerned with macro-economic analysis and to evaluate macro-economic management.

They all supported the Economic Development Institute, for example; they all supported doing a study on external debt; they all supported the idea of doing a study on commodities. The idea that some economists did studies was fine, but the idea that in-depth analysis was done in order to get better loan decisions was for them seemingly difficult. Often they just didn't agree. When these people came to meetings, they tended to be rather acerbic as to what was going on, asking what was all this discussion about, but they came. They participated in the meetings.

Some of the people who really had a lot of standing as economists in the place did not agree with the expanded economics program, but that changed over time. I mean this was the beginning. Under Woods, the way we started in '64 or '65 was the way it lasted until about 1969. In those years people became more and more cooperative. There was more acceptance to what was going on.

My problem was really not with the area economists. It was the area department heads who didn't give the status to the economists that I wanted. I wanted the economists to have a much more formal -- I may have made this point before -- more formal status as deputy heads of their departments if not co-heads. The heads of the area departments would not support this, and it never happened.

OLIVER: Did your conception of the work of the Economics Committee continue under your successor?

FRIEDMAN: No. McNamara abolished the Economic Committee.

OLIVER: Did he give any reason for this?

FRIEDMAN: I don't remember.

OLIVER: Well, I think it is time to turn our attention to IDA financing. It is now apparent to me that when you were asked what should be the volume of IDA financing, you were concerned not only with the question of absorptive capacity, in a traditional project lending sense, but also in the supplemental financing sense, so that the total amount of external financing that you were likely to have supposed necessary would have been larger than otherwise. Would you introduce this general subject of the relation between what you have been telling me and IDA financing?

FRIEDMAN: In terms of what actually happened and why, I think it is fair to say that it wasn't necessarily all that integrated. On the IDA replenishment, the first question is (please stop me if I am repeating myself) -- How did Woods get into the IDA replenishment in the first place? Perhaps you feel well documented on this. I don't know. Each one will have a different perception. I will just give you my perception.

When Woods was first asked to do the IDA replenishment, I had

lunch with him alone. He questioned whether or not he should do it. He explained that the first IDA negotiations had been conducted under the leadership of the U. S. Treasury and not under the leadership of the World Bank. Black had played a relatively passive role. Woods said that he had been asked by Secretary Fowler to do this because of Fowler's preoccupation with the Viet Nam War and the budget and other financial problems.

OLIVER: May I just interrupt to say that I have been told that the IDA financing really originated as an idea in the Senate with Mike Monroney being a leading proponent of it, and that it was in turn related to a desire to find ways of financing larger American exports; so that instead of its being a vehicle for financing development, it was a vehicle for something else. It changed, therefore, over the years with the roles reversed: Congress eventually dragging its feet, and some of the people in the Bank wanting to expand IDA. Can you straighten this out?

FRIEDMAN: I think this is fascinating, in a way, because if nothing else it illustrates the problem of the historians. As it happened, by sheer coincidence, one of my very best friends in Washington at that time was the AA to Senator Monroney who drafted the IDA legislation. Indeed, when we first became very good friends, I did not know this. We became friends for completely different reasons. It had nothing to do with our profession. Tom Finney was a lawyer by profession who was an Administrative Assistant to Monroney. Monroney had gotten interested in IDA and remained interested. You might go through the personal papers of Tom Finney for a little footnote on this.

I remember Tom telling at the time that they thought of IDA as a technique to use our local-currency acquisitions. They were impressed with our huge holdings of local currencies. Monroney asked why it couldn't be given to Gene Black. "Gene will do something useful with this money. It's money that doesn't cost us anything. We can give it away in a generous way. We can help these poor countries." That was what Tom Finney told me. My impression was that it had nothing to do with promotion of exports. I don't remember ever asking Tom whether or not it was related to exports. They are not necessarily inconsistent, of course.

OLIVER: Well, the counterpart funds would have been. . . .

FRIEDMAN: By the time I got to the World Bank, IDA had been established. The question was What size should the replenishment of IDA be? It was recognized that the original IDA was small. What was it? $250 million dollars? The agreement was that there would be a review of the size of IDA -- I think it was every five years. This can easily be checked.

OLIVER: I think it was three.

FRIEDMAN: Was it three? It might have been three. I guess three makes more sense in terms of timing, doesn't it? By 1964, we were already beginning to worry about the next replenishment of IDA. Whatever the replenishment periods, IDA was small. Woods had the philosophy that he wanted IDA to be bigger than the World Bank. I was encouraged by Woods to come out with a bigger rather than a smaller

figure. I wasn't constrained by Woods. Woods asked, "What would you come out with?" And I finally came out with the figure of $1 billion.

I think we've talked before about how I got to this figure -- part of it was just rationalization, part of it was trying to make the case for a larger IDA, which, even at a billion dollars, wasn't going to be all that big in terms of the needs of developing countries. It would still keep the World Bank and IDA combined a small fraction of the developing finance of the world. IDA and the World Bank are now much more important in that sense than they are in playing a relatively larger role in development finance. In those days, the World Bank was still pretty much small stuff in relation to total international capital movements to and from developing countries. Woods agreed to the idea of being a proponent of the billion dollar figure.

We had numerous discussions with people in the U. S. Treasury. It was generally assumed that the lead role among the donor countries had to be played by the United States. The major donor countries would not be willing to do more than the United States and maybe not as much. One of the critical issues raised by the Treasury was the U. S. balance-of- payments deficit. At that time, the Treasury was concerned about international expenditures or commitments that would increase the balance-of-payments deficit. I tried to find an answer that would not increase the balance-of-payments deficit. I wrote a paper to this end which I sent to the Treasury and discussed with people like Secretary Fowler. (I forget exactly who was Undersecretary of the Treasury at that time. Names like Paul Volcker and Bob Roosa came to mind, but I'm not quite sure that I don't have my chronology mixed up. It is easy to check.)

My relations with the Treasury were very good at the most senior level, so I got the job of trying to persuade the Treasury that from a balance-of-payments point of view we could demonstrate that IDA funds were not a drain on the U. S. balance of payments, and we did. At first it was controversial. the Treasury, as usual was skeptical and hard to convince. Ralph Hirschtritt was the principal Treasury officer on this matter. After awhile it ceased to be an issue, and the IDA replenishment went on.

Another issue was whether Woods would take on the responsibility for the Second Replenishment of IDA instead of the Secretary of the Treasury.

OLIVER: In other words, he was to deal directly with the Congress?

FRIEDMAN: Well, no. He was to deal directly with other governments.

OLIVER: O.K.

FRIEDMAN: To deal with the other governments.

OLIVER: Including the Congress but not limited to the Congress?

FRIEDMAN: Not the Congress. The issue was whether to deal with the French, the Germans, the British the Canadians and other donors. Does the Secretary of the Treasury and his staff deal with them or does George Woods and his staff deal with them? The decision was that Woods, the President of the World Bank and the Head of IDA, would organize the IDA replenishment effort. Among the matters which he organized was relations with the U. S., but relations with the

Congress were still via the U. S. Treasury. And that becomes important because -- one of the things which became very controversial was the whole delay in getting the IDA talks started. Why didn't the IDA talks go more promptly? We get involved in a delay of many months. It was the view of the Treasury (Fowler) that George Woods should do it. The Secretary was too busy, but still we could not start without a clear view of the U.S. position, and that took months to obtain.

OLIVER: Was there a period when Fowler, himself, was somewhat ill?

FRIEDMAN: Yes. That's what I was coming to. The Europeans had expressed the view that they didn't want to meet seriously as a group of donors about what amounts they would be willing to pledge -- we had already made up our proposal for a $1 billion increase -- unless they heard what the American view was. In the meantime, Fowler became sick, and there were months of delay in giving a reply to our requests for a U. S. position. For months we talked to Ralph Hirschtritt, who was the Alternate Executive Director in the World Bank, trying to get the Treasury to give its position.

I also went over to see the people at the Treasury and was constantly being told, "Sorry, but we'll do it next week -- next week -- next week." We were getting a lot of flack and criticism from the Europeans about the delay. The Europeans wanted to know the U. S. position before we called a meeting of donors. The principle staff people involved in this effort were Burke Knapp and myself and, to a lesser extent, Sim Aldewereld and Dick Demuth. Whether Sim and Burke were talking privately to Executive Directors, I just don't know.

It is quite possible. I do know that the three of us -- Burke, Sim, and myself -- were given the leadership role on the IDA replenishment, I more on the substantive issues like the balance-of-payments issue and justification over the billion dollar figure. Could, for example, IDA borrowing countries use a billion dollars effectively?

Burke was on negotiating and diplomatic relations. Burke had the lead in organizing the meetings and discussions with IDA donors as a group. I made some visits, along with Woods, when he went to visit the principal donors aside from group meetings. Canada, Germany and the U. K. were among those so visited. Sim Alderwereld was the staff person who knew about projects which was the way the IDA was going to release money. It was a balanced team of people.

The Europeans were constantly sending back trouble signals. We don´t want to meet until you can tell us what the Americans are willing to do. They were complaining about the delays. We kept sending back the signal that were trying to get the Americans to tell and would be glad to assemble the group in Paris as soon as was feasible.

OLIVER: I just want to interrupt to ask, Were you and Knapp and Alderwereld dealing primarily with Executive Directors or were you dealing at other levels of government?

FRIEDMAN: We were dealing directly with countries with a view to organizing a meeting of government representatives in Europe somewhere, probably Paris.

OLIVER: What time period are we talking about? Is this ´66?

FRIEDMAN: I think I would say approximately ´65 or ´66. It was already done by ´67.

OLIVER: When was the billion dollar a year estimate completed so that it was in Woods´ hands and he was able to use it?

FRIEDMAN: I think I had it done by the end of ´64 or early ´65. It wasn´t a long study.

OLIVER: I should be able to find it.

FRIEDMAN: Absolutely. It wasn´t a long study; it was a concensus figure. At at least two memoranda that I can recall were prepared that were a result of this survey of the economic judgements of individual people in the Area Departments as to what they thought.

OLIVER: This is not very much related then to the later detailed statistics that were put together by late ´67, country by country, by the economics department.

FRIEDMAN: That was part of the country review program that we were installing.

OLIVER: So that is a separate issue.

FRIEDMAN: That was going on simultaneously. We were very busy!

OLIVER: So we will come back to that.

FRIEDMAN: If we may digress for a moment, I think it is interesting, Bob, and in hindsight even more interesting, that we had begun an extensive process of trying to develop international debt statistics. That process had begun before I came to the World Bank. It was one of the first things that I discussed with Andy Kamarck when I came to the World Bank. This process had already started. It related directly to the IDA replenishment but was partly motivated by our desire to show the need for concessional assistance. In those days, the issues were Could we get cooperation from the Monetary Fund? which we did. Could we get cooperation from the creditor countries in Europe? which we did not. They refused to go along with us, and we had to develop a kind of hocus-pocus system of rationalizing the data we were able to collect and verify. The world began to rationalize why we had the data we had. It was because we couldn't get any other statistics. For example, for data on loans of one year or less, it was necessary to have the cooperation of the commercial banks. The creditor countries were not in the mood to compel the cooperation of the banking community, because the banks and their governments felt at that time that such information was confidential. We relied more on the balance-of-payments reporting of the Monetary Fund which would give us a check on our own reporting system. We felt we needed some other source of information besides our own to check our data.

We didn't see this data as part of the IDA replenishment. We just saw it as necessary for the debt problem, and, of course, we had to know more about it. It was the same way with the country analyses. I don't think we saw that as part of the IDA. It was often part of our deepening of knowledge about the countries, more concern about their economic behavior, their development programs, and their investment programs. This was getting increasingly related with supplementary finance, but they were going along as separate studies, even though a number of the same people were involved in all of them.

The IDA replenishment was a distinctly separate exercise going on under the leadership of George Woods with the help of Knapp, Alderwereld, and Friedman. It was not the Economic Committee nor the Loan Committee; it had its own structure.

OLIVER: I think it predates much of what you did later about supplementary finance doesn't it?

FRIEDMAN: To some extent, but at some point they went on at the same time.

OLIVER: In retrospect, does it seem to you wise to have, in effect, bi-passed the various country Executive Directors? If I understood you correctly, you and Knapp and Alderwereld were dealing directly with officials in the various countries who were in some sense superior to their country Executive Directors.

FRIEDMAN: My perception of the role of an Executive Director comes from the Monetary Fund where we had much more intimate relations with Executive Directors than existed in at the World Bank. In the Monetary Fund, it was well understood that the Executive Directors had a major role to play in policy making. In the World Bank, that was not entirely clear. The Executive Director role was considerably less. Even common Executive Directors [to the Bank of the Fund] -- the U.K. that had a common Executive Director like David Pitblado or Eric Roll, took much more seriously their role as Executive Director in the Fund than they did as Executive Director in the Bank. The Bank was considered to be an institution much more run by the President and the senior staff than their counterparts in the Monetary Fund. In the case of the IDA replenishment, we did keep in touch with Executive

Directors. I, for one, favored much more contact, and I found that people told me it just wasn't necessary. Even a man like Peter Lieftink didn't expect us to. There were, of course, some Executive Directors who were more active than others like Kochman, Tazi and Luis Machado. They representing borrowing countries.

OLIVER: Maybe we want to come back to the Executive Directors in a little bit, but I do want to make sure I understand what you are saying here. I've been told that the number of meetings between the President and the Executive Directors increased substantially in '66 and '67 over earlier. My question is Was this increase related in any way to the IDA replenishment issue? or Did it have to do with other issues?

FRIEDMAN: Oh well, do you mean, informal meetings? One on one?

OLIVER: No, no, I mean Board meetings.

FRIEDMAN: Well, a few things were going on at the same time. One is that the volume of lending was going up. There were more matters that needed Board deçisions. There was never any question that any loan needed a Board decision. The Board also was now beginning to be given not only a recommendation on a loan proposal but also the staff view about the economic conditions of the country. These discussions increased the Board work.

The Board also was interested in general subjects like the lending rate of the Bank? This was the time when the Bank's traditional lending rate formula came under question as interest rates were beginning to rise. Even though they look low now, they were rising -- going from four to five to six percent. Those were significant orders of

magnitude, and there was resistance on the part of developing countries, and some developed countries like the Scandinavians, to corresponding increases in the Bank's lending rates. Those sympathetic to the needs of the developing countries were emphasizing the need for more concessional funds which ran countries to higher Bank lending rates. Financing of local-currency expenditures was also getting more attention. This is the time when IDA itself was also becoming more and more a matter of attention. More IDA loans were coming through consortia. There were more consultative groups. So there were many more things to come to the Board.

Woods wanted to have good relations with his Board. He was in favor of good relations with his Board. He was in favor of good relations with the U. S. Treasury, Congress, and other governments Woods was not indifferent to the views of his Executive Directors, but I know, by Fund standards, we didn't spend much time on this. It wasn't a major effort. In the Fund you often didn't go to see the Managing Director until you had discussions with the Executive Directors concerned. Then you briefed the Managing Director on what the Executive Directors thought. I never had the impression in the Bank that the staff had that view of the role of Executive Directors. On the other hand, they didn't ignore them. They were consulted, so it was a matter of the perceived relative importance of the Executive Board. I would not say that the staff didn't think that the Board was important or that the Board was ignored.

But Woods was already known as being quite candid, of being a person who expressed frank views about things. I heard later, I was not that much aware of it at the time, that he was irritating people on the Board. I was privy to very close relations with the Executive Directors who were also in the Fund at the time, like the British and the Canadian Executive Directors. I didn't get that feeling from them. Maybe, it was because I was known as being particularly friendly with Woods. As a matter of fact, I was not a frequent visitor at his home or anything like that. We were not socially friendly. If there was hostility between Woods and some of his Board members, it wasn't expressed to me; and yet I was considered a leading figure in the Bank at the time. I didn't go and ask an Executive Director if he was upset or not by what George Woods had said. I did, however, speak to Executive Directors quite frequently, because I had this habit from the Monetary Fund days.

I would not interpret that New York Times which came out during our meeting in Brazil as a leak by a Board member. I'd say it came from the Staff. I got much more of a sense of arrogance from some staff members.

OLIVER: You're talking now about an article in the Sunday New York Times Magazine shortly before the annual meeting in Brazil? What can you say about that article. I haven't seen it yet.

FRIEDMAN: You ought to read it: particularly someone who is trying to delve deeply into the Woods administration. That article was extremely critical of Woods in the sense of reporting stories about how he didn't get along with his staff with some illustrations. I remember at the

Governor's Conference in Brazil walking into his office; it was the closest I ever saw George Woods to crying. He looked completely busted up with his head down, looking at this article. His comment to me was "Irving why do people do this sort of thing?" I interpreted his remarks to refer to the staff, not to the Board. The staff wasn't scared of Woods. By this time, they had discovered that Woods was a softy. He didn't hurt people. Woods was not a man that his staff feared. There was more caution in making hostile remarks when I first came. By '67, some staff were openingly critical. I was hearing such remarks, but I heard them in confidence; I never repeated them to Woods. In the Fund we didn't talk as they did in the Bank.

OLIVER: I haven't read the article, but I am told that it did make some comments about Executive Directors. So my question is "Did Staff normally sit in on meetings of the Executive Directors so that they would have been well aware of things that had gone on in Executive Director meetings?

FRIEDMAN: Between Woods and Executive Directors individually?

OLIVER: Yes.

FRIEDMAN: As far as I was concerned, only occasionally. If others did more than I, I didn't know. Only occasionally. The meetings with individual Executive Directors were mostly with us, without Woods -- mostly with individual members of the staff. Sometimes a number of us -- sometimes we would go together, so to speak. Sometimes we would meet in the office of a Director, but if there were a lot of individual meetings going on with Woods, I don't know. I was there on very few occasions. Staff, of course, was present at all Board meetings.

OLIVER: I have two questions that are related to this general subject of the increase in possible Bank financing. They are not related to IDA, but let me ask them at this juncture. I understand that one of the major accomplishments of the Woods administration was to expand Bank funds from alternative sources so that more was being raised in Switzerland and France and Germany and such places. Can you comment on this?

FRIEDMAN: That is one of the things that was quite important under Woods. I know he thought it was quite important -- the expanded presence of the World Bank in capital markets including the United States.

Black had taken the view that the reserve position of the World Bank was quite satisfactory. I forget what it was at that time; the number a billion and a half dollars comes to mind: this figure is easily verifiable one way or another. As he saw it, there was no particular need for the World Bank to go further into the U. S. Capital markets. It was Black who had begun to borrow from more diversified sources, especially Switzerland. There was no sense of urgency about this. It was just a good idea to get more diversified sources.

Woods had a different view. Two things he pushed hard. Most of all, he wanted to go back into the U. S. capital market. He felt that the Bank had been away too long. He argued that it didn't matter that the Bank did not need the money. What mattered was to have market recognition by presence in the market. If the Bank stayed out of the market too long, it would find it difficult to go back when it wanted to -- in fact so difficult, that it might not want to do so. The Bank had to keep open the option of going to the U. S. market, because it was by far the largest, single, capital market in the world. The Bank had to have ready access to it. He clearly decided that the Bank would go back to the market. He took a very personal interest in the magnitude, the timing, the pricing, etc. He was clearly in his element. There was no question of following the advice of others. He clearly knew more about the subject than anyone in that building.

OLIVER: What year are we talking about? Wasn't there a time when the Treasury decided not to allow the Bank to go back into the United States' capital market because of balance-of-payments considerations?

FRIEDMAN: I think we are talking about 1965 or so, -- again my memory needs a lot of refreshing -- when Woods decided to go back to the capital market. The Bank had to get permission from the U. S. As I recollect it, the Bank got permission quickly. The concern about the balance-of-payments increased during discussions about IDA. The concern became a concern about access to the capital market as well. But Woods' view was, to my recollection, very clear: he wanted to borrow from the U. S. markets.

He also wanted to borrow from other markets, but in the case of the French market, he felt that the pricing that was being proposed by the French Government was too costly. The French had a variety of fees, and they added up to a pricing that was not attractive. So he did not seek access to France. He wanted to borrow in Switzerland. If I remember correctly, he did so.

At this point, were two principals are Bob Cavanaugh, who was Treasurer, and Howard Johnson, who was the head of the New York Office of the Bank. (I am not quite sure when it got abolished, whether it was under Woods' administration or during McNamara's, but in the early years I surely remember Howard Johnson's presence in New York.) Bob Cavanaugh was well regarded by Woods, but he was not in a class with George Woods himself with respect to these borrowing decisions. These matters were discussed at the President's Council.

With Woods' permission, I approached the head of the Saudi Arabian Monetary Agency because he was a very close friend of mine. He had been in the Monetary Fund and, in fact, was on leave from the position of Director of the Middle Eastern Department. I had had a great deal to do with his coming to the Monetary Fund in the first place, so we were very good friends. I approached him and told him that the President of the World Bank was very eager to diversify his sources of financing, and I was sure that he would be very pleased to have some kind of investment by the Saudi Arabia Monetary Agency even if it didn't amount to very much. It could be another example of diversification. If I remember correctly, SAMA, as it was called, made a $10 million dollar investment in World Bank. Woods was very pleased.

OLIVER: This is well before the '73 oil crisis?

FRIEDMAN: Oh yes. In the 1960s, Saudi Arabia was already a surplus country, to hundreds of millions, if not yet tens of billions of

dollars. Its currency was strong and had been for years. This is why I recommended borrowing from Saudi Arabia.

OLIVER: Let me ask you somewhat of a related question. I understand that Mr. Woods also decided that the Bank should be increasingly careful not to be competitive with private sources of finance, partly to husband the Bank's relatively scarce funds, and partly to make a distinction between Bank financing and private financing. Can you say more about this issue?

FRIEDMAN: One of the things I have to be careful about is not to make comparisons with the time of Black, because I wasn't there. It is hard for me to say whether it was more or less than under Black. I could be more positive about Woods' attitude, and I do have some sense of comparison with the earlier years of McNamara.

Woods' attitude was that the World Bank ought to finance certain things. It ought to be in agriculture. It ought to be in power generation, building roads, infrastructure. Once in ECOSOC the Russians criticized the World Bank because it didn't build enough factories. Woods reply to the Russian delegation was, "Well, Mr. Ambassador, we'll build the intrastructure, and you can build factories on the top of our interstructure." He had the basic idea that the role of the Bank was to build intrastructure, including human infrastructure, but there he was kind of cautious. I had the impression that Woods was much more at ease with building a technical university, about providing the interstructure of the educational system, than financing a curriculum or training teachers, for example.

He was in the physical assets business, building physical assets. This did not mean that he would not enter the social field. The Bank could finance a hospital, but it did not support medical teaching.

OLIVER: I should have thought this was also a local currency kind of question.

FRIEDMAN: You mean about the use of local currency? -- that's my next point. He favored husbanding, as you suggest, foreign exchange. There were certain things that he refused to do. He was being urged by some to finance tourism. He could think of a hotel as intrastructure or a foreign-exchange earner, but since the hotel was private business and there was private capital for that private business, he opposed the Bank's financing hotel buildings. If roads were needed, he was prepared to help finance them. If they needed a harbor or an airport, the Bank could do it. But private capital was available to build hotels.

He had a similar attitude toward financing steel mills. His attitude was that he knew people in the U. S. in the steel business who were perfectly happy to find financing for good steel mills abroad. If such people walking away from a steel mill project in Argentina, it was because it wasn't a good steel mill. The World Bank had no business financing private industry which was economic. He took as a test of "economic" that, if it was good economics, someone in the private sector would be willing to do it. The World Bank did not have to use its lending authority for such purposes.

The other thing that he stressed was that the Bank should not

finance countries that were well off. He had a long history of very close and friendly relations with the Japanese, and yet it was during his Administration that the question arose whether or not new funds for Japan were appropriate. He had to tell the Japanese that no more new loans were available. At that time, the Japanese did not welcome the news at all. They were told that the World Bank was not going to finance Japanese projects because it had to save its money for poorer countries.

His definition of poor countries included Brazil or Argentina. He was not making the distinction between poor and not-so-poor developing countries. That was for IDA. As far as the World Bank was concerned, <u>all developing countries were potentially Bank worthy unless they were not credit worthy, and, therefore, they ought to be IDA countries.</u> This is long before the notion became prevalent that some newly industralizing countries like Brazil ought to be "graduated" from the World Bank.

OLIVER: In the case of enterprises that he felt ought to be financed privately, let's say a hotel, might he send the applicant to the International Finance Corporation? Was he enthusiastic about increasing IFC work?

FRIEDMAN: One of the things that always remained a mystery to me while I was in the World Bank was the relation between the IFC and the World Bank. I kind of hope that one of the things that will come out of your book, Bob, is that you will shed some light on that. Woods rarely talked about the IFC -- at least at the President's Council. The only thing I recall discussing regarding IFC was the general question of whether the World Bank should be willing to help expand the IFC by making a substantial loan to the IFC? Woods was very much in favor of lending money to IFC. He was very proud -- I would see this in his talks with officials abroad -- of the fact that the World Bank had a "private arm" which was called the IFC. He would constantly refer to the fact that the Bank had a private arm, the IFC. But I don't know what that meant in Bank-IFM relations.

OLIVER: Did he invite the Vice President of IFC, Marty Rosen, to sit with the President's council?

FRIEDMAN: Not as a regular thing.

OLIVER: Only when some question related to IFC was being discussed?

FRIEDMAN: I gather when Marty himself evidenced an interest in it. My impression then, as someone who had known Marty Rosen for some time, was that Marty himself was eager to keep independent of the World Bank. He wasn't pushing himself into the President Council. He regarded himself as in a way, more autonomous, in a way, probably true, superior in rank.

At this point, there is no Senior Vice President in the World Bank. There were just a half of dozen of us who were vice presidents, while Rosen had a title of Executive Vice President with many special perks. He was telling people, as far as I could see without refutation, that he had been told by Eugene Black that he would become President of IFC and that he expected Mr. Woods to make him President. Marty Rosen acted like a person who wanted to be the head of an

autonomous agency and, indeed, who <u>was</u> the head of an autonomous agency in everything except formal rank. So I think his non attendance at the President's Council meetings would have to be carefully interpreted. It did not necessarily mean that Woods wanted to exclude him. It could easily have been that Marty was not interested in becoming another one of the vice presidents of the World Bank.

OLIVER: Do you know why he was not in fact made President of IFC?

FRIEDMAN: No. I don't know. There has been get a lot of gossip about this. But again, it was interesting in my relations with Woods that I found that he rarely gossiped. He gossiped practically nothing at all to my knowledge about Marty Rosen. When he gossiped, it was about his friends in New York. He did not talk much about personal relations. I interpreted it at the time that he didn't have many personal friends. The people in the Bank were not in his social circle; he didn't have much to say about these people perhaps because he didn't know much about them.

OLIVER: Well, it's probable that he maintained a fair number of social relations with his friends in New York.

FRIEDMAN: That's right. To illustrate my point, I think George Woods was over at my house once in four years.

OLIVER: Did he ever comment to you about how he felt about Washington as an area relative to New York as an area?

FRIEDMAN: That came out, I would say, repeatedly. He clearly did not admire the Washington environment. It was too political for him. People seemed to be -- at least so he said -- they seemed to be much more concerned about their personal prestige, getting credit for things, feeling insecure about the future.

There were obviously a number of people in Washington like Senator Fulbright, whom he liked very much. I think he liked Joe Fowler. I'm sure there were others that I didn't particularly know. He would talk about how he had had dinner with them. As far as I was concerned, there wasn't much intermingling of the staff on these occasions. He had very pleasant personal relations with Pierre Paul Schwitzer, the Managing Director of the Fund. He liked him very much. He had very pleasant relations with Renee Larre, who was the Executive Director in the Monetary Fund and the World Bank for France, even though actually Larre was one of the ones who was opposing Supplementary Finance and the IDA replenishment.

His view of New York was that there were many more people there who knew about finance, many more people who seemed to be self confident about themselves; but most importantly it was an environment in which he had his own personal, best friends. It wasn't a criticism of Washington so much as the warm, obviously warm, feeling in his choice of words about people like Nelson Rockefeller and Andre Mayer. These were people whom he would refer to from time to time in a very warm and nostalgic way. He made comments to me about how he would be glad to get back to New York. He didn't talk that way while he was someone who was clearly staying in Washington.

OLIVER: It has been suggested that Gene Black had a number of friends in Congress, both in the Senate and the House, and this was part of the

reason why he was relatively successful in getting the cooperation of Congress for various things the Bank wanted to do. Were there people besides Senator Fulbright that were mentioned as people George Woods was able to call upon, so to speak, for help?

FRIEDMAN: Senator Robertson was hired by him. I don't think Woods can be compared with Eugene Black in terms of using social attributes on behalf of the Bank. For example, with Fulbright, Woods was clearly very friendly, but I was the one who was asked to go and speak to the Fulbright people about the IDA replenishment. He was quite friendly with other people, and yet, he asked me to go and speak to them. I didn't take over his social role. I didn't invite Fulbright over to the house for dinner. But I felt that Woods wasn't very much of a socializer. I had lunch with him very often. It would just be the two of us. I think he kind of enjoyed this: sitting down and having lunch and chatting about things. I forget what they were, but they tended to be the business things of the moment. He was not a glamorous social figure.

I hadn't thought of it before, but I bet most people in Washington would not have recognized George Woods when he was there. He wasn't a figure you saw when you were at Embassy parties. He wasn't the major social figure that the President of the World Bank had been. Eugene Black had been a major figure.