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Transcript of interview with

DAVID L. GORDON

July 24, 1986

By: Robert W. Oliver

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Memorialist: David L. Gordon

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Interviewer: Robert W. Oliver

OLIVER: This is July 24, 1986. My name is Robert Oliver and I'm about to begin a conversation with David Gordon. I think we might begin by my asking Mr. Gordon if he would tell a bit about his background, how he came to the Bank in the first place, and then some highlights of his illustrious career in the Bank.

GORDON: Well, the career was longer than it was illustrious, I guess. I came to the Bank initially in 1947. I had worked with the U.S. Government during World War II and for a short time after the war as an adviser to the Chinese Government--the Kuomintang Government--on post war reconstruction and supply problems.

OLIVER: Were you with the Treasury Department?

GORDON: No, this was directly for the Chinese Supply Commission here in Washington. When it evaporated in the summer of 1947, I was, by a stroke of luck, having dinner with some friends, and the dinner guests happened to be Dick [Richard H.] Demuth and his then-fiancee. Dick and I got to talking about the Bank, which I had been interested in for some time. He invited me to call on him and I did. It resulted in a job with the Bank.

OLIVER: Were you a Princeton man like Dick and Harold Graves?

GORDON: I was a Princeton man but finished a couple years after Harold.

OLIVER: Marvelous.

GORDON: I worked first in the Vice President's office. Actually it was a combined assignment in the Vice President's office and the Loan Department, so I commuted between floors. But in the summer

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of 1948 the Bank gave me a leave of absence to become deputy director of the China Program of the Marshall Plan. And I did that for six or eight months. That job too, of course, evaporated when the Chinese Government fell. I came back to the Bank but still the Bank was not at all active. It hadn't found a role for itself. It still didn't know quite what to do in the Third World development business. It obviously was not equipped to deal with the post war reconstruction of Europe, which was its original task. I did have the interesting assignment of representing the Bank on the inter-agency discussions that helped set up the UN Technical Assistance Program, and I wrote most of that report. But, again, I got bored, and I resigned and went to work for the Marshall Plan full-time for three years.

OLIVER: Were you acquainted with Andy [Andrew M.] Kamarck in those years?

GORDON: Yes, but not very well. There were a number of ex-Marshall Plan people who came to the Bank subsequently. In the Spring of 1953 I came back to the Bank. By that time, it had become a much more active organization, and I was asked to go to Nicaragua as Resident Representative and adviser to the Government in organizing their development program. That position lasted for about one-and-a-half years. I also did some work in Ecuador and what was then British Honduras. Then I went to Guatemala for one-and-a-half years, also as the Bank Resident Representative and adviser to the Government. I came back at the end of 1956 and became a division chief, in charge of the Middle East and Northeast Africa.

OLIVER: When you were doing your duty in Central and South America, were you under the aegis of the Department of Operations - Western Hemisphere per se, or were you a special adviser through Dick Demuth's department.

GORDON: I was under the aegis of the Department of Operations - Western Hemisphere. [J.] Burke Knapp was then in charge of that department, but mine was a detached assignment in the sense that I had of a great deal of independence and autonomy in operational terms. And it was expected to be so. It was made very clear that, in advising the Government, I was not required to toe the Bank line, that I could advise the Government to take issue with some of the Bank stands if I thought it was appropriate. And I did so sometimes, to the great annoyance of visiting missions.

OLIVER: But you were a single-person mission. I hadn't realized that the Bank had...

GORDON: Well, actually there were two of us--we were two-person missions in both cases. I had one assistant. It was a very lean mission indeed.

OLIVER: I hadn't realized that permanent missions--if permanent is the right word to use--went back that early in Bank history.

GORDON: Well, these were the early experiments, at a time when the Bank saw its role as much more of an advisory-counseling type in the broad sense than it did later. Subsequently, of course, it came back to that role to some extent as it did later on, when the attitude on the part of the developing countries was somewhat less receptive than it was in the mid-fifties.

OLIVER: Did you participate in any of those broad survey missions like Colombia and Cuba?

GORDON: I did. As a matter of fact, I was a member of the first survey mission to Colombia and was, in very substantial part, the author of the report in 1949-1950

OLIVER: You're an economist by training?

GORDON: Yes, I'm afraid a rather superficial and old-fashioned one, but I've picked up a good deal over the course of the years.

OLIVER: There's a great deal to be said for what you call old-fashioned economics, I think.

GORDON: Yes.

OLIVER: Well, I interrupted you. You were beginning to talk about Africa or the Middle East.

GORDON: Well, at the beginning of 1957 there was very little that the Bank was doing or was able to do in the Middle East. This was just after the Suez crisis and after the Aswan discussions had collapsed. And really the only country in that area that we were at all active in was Ethiopia. We were beginning to do something in Sudan, but not too much.

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And so, again, I'm afraid I got bored. And in an attempt to cure that, I devoted some time to thinking about what the Bank ought to be doing, and I eventually wrote a fairly lengthy memorandum, which propounded the idea that a soft loan window ought to be opened up.

OLIVER: Did you do this in Washington or in the field?

GORDON: In Washington. I had thought about it previously when I was in the field, but I wrote it in Washington.

OLIVER: And this was what year?

GORDON: This was in the spring of 1957, and I simply, on my own, circulated this memorandum rather widely. It was directed essentially at the U.S. Government or U.S. political circles and interests. The object was to put the argument to the U.S. Government that organizing its aid program under multilateral auspices made sense and that the program would have to be much softer, more flexible and larger than the Bank was able to manage. I circulated this memorandum quite widely to various U.S. Government agencies, the State Department, the Treasury Department and so on.

OLIVER: On your own?

GORDON: On my own. Absolutely. On my own personal letterhead. And I sent copies to a number of Congressmen that I thought might be interested and to Vice President Nixon. And I got replies from a number of sources, most of them expressing courteous interest but no particular support. The Treasury Department was adamantly opposed. There was a group in the State Department that was quite strongly in favor, although another group in the State Department was strongly opposed. And I heard reverberations of that argument for several weeks. And in the end the State Department said no.

OLIVER: What month would this have been?

GORDON: This would have been June or July 1957. I also had some discussions within the Bank itself, and a number of the key people in the Bank received copies of the memorandum. And, again

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the reaction was essentially very skeptical. Not negative, but in a sense, the feeling was yes, this is no doubt a good idea, but it is utterly impractical; the U.S. Government will never buy it; and if the U.S. Government doesn't buy it, then it won't be salable anywhere else. I think this was true enough. And as I said, the main thrust of my argument was to persuade the U.S. Government to buy it. The only person who really clearly favored it was Eugene Black himself. And he said, "Let me keep this on my desk, and I'll see what I can do with it somehow." Nothing happened for several months.

In October of that year, I guess it was, the Russians sent up the Sputnik. And there was a great flap in Washington about what kind of political waves that would create throughout the world and what kind of reaction the U.S. Government, or the U.S. and other Western countries should make. And there was a meeting of NATO in Paris, and Mr. Black called me up and said, "You know, I think I've found a use for your memorandum. I've sent it over to Secretary [Robert B.] Anderson of the Treasury and told him to read it on his way to this NATO meeting and see if that doesn't give him some ideas." Nothing happened for some time.

Some weeks later--I guess at the end of 1957--Mr. Black called me again and said, "I had a call from Secretary Anderson. He had some ideas for the new U.S. aid bill that's going to Congress shortly. He feels that we have to have some sort of dramatic breakthrough in order to have the political impact that's necessary. He had several suggestions that he wanted to try out on me. I told him that they were all nonsense, that they wouldn't have the proper impact and that he'd better think again. He asked me what I would suggest, and I asked him whether he had read that memorandum. He said no, he hadn't gotten around to it. I told him to read that memorandum, and he said he would. Then the next day he called me and said could he and Douglas Dillon--who was the Undersecretary of State--come over and see me. And I invited them for lunch, and we talked for two hours. And they said they were prepared to support the memorandum.

Mr. Black also said, "They told me there is a man on the [Capitol] Hill named Senator [Michael] Monroney who has all sorts of wild-eyed schemes. They asked if I would be willing to talk with him. And I said I wouldn't take the initiative, but if he wants to come to see me, I'd be delighted to see him." And so the next day he had a call from Senator Monroney who came over to the Bank, and they talked for a while.

OLIVER: They--meaning just Black and Monroney?

GORDON: Black and Monroney. And, again, Monroney agreed that this made sense, and he asked Mr. Black to draw up a brief resume of the kind of scheme that would be required, and a small committee from the Bank did so. This was thrown into the hopper as the Monroney Resolution a day later.

OLIVER: I hope the small committee in the Bank included you.

GORDON: It did, yes. So Black invited three or four of us over to his house on a Sunday morning, and we wrote the memorandum.

OLIVER: Do you remember one or two of the others in the group?

GORDON: Well, it was Burke Knapp...

OLIVER: And...

GORDON: I think Dave [Davidson] Sommers.

OLIVER: Dick Demuth?

GORDON: Dick Demuth, probably. I don't recall, but I think almost certainly. And I don't who else. Maybe Siem [Simon] Alderwereld.

OLIVER: Yes. So it was the brain trust of the Bank?

GORDON: Yes, and the Monroney Resolution sat around for a few weeks. It was voted on fairly rapidly. Again, the general view in Washington was that it didn't have much chance of passing, but it passed overwhelmingly. As soon as the Congress and the Administration endorsement was there, there was almost immediately a favorable reaction from all the European countries. So it was off and running.

OLIVER: Well now, can you say a little bit about what schemes Monroney had in mind? I've been told, for example, that he thought he'd find a way of using Public Law 480 counterpart funds.

GORDON: Yes, certainly that. I confess I don't know in any detail what other ideas he was propounding. But certainly the PL 480 proposal was--well, use of PL 480 resources in a much more active way was a part of his idea. I may say that in my memorandum, the softness of lending that I suggested initially was in the form of local currency repayments, because that was the form in which the U.S. Government had structured its development lending to the poorest countries. Up to then I thought the precedent was there, and it might as well be used. Gene Black didn't like that. He said, "That's not a loan. And I won't be a party to anything which is so phony an obligation as that." So he insisted that it must be in some sense a genuine obligation in foreign exchange, that the softness had to be introduced in some other way. And we explored all sorts of possible ways of doing it before coming up with the formula that has prevailed since 1958.

OLIVER: So it was not immediately apparent that just a service charge of .005 to .0075 percent would do it?

GORDON: No. No, and as I said, my first idea was to have no foreign exchange obligation at all, but finally, I felt that that was essential to make it a genuine...

OLIVER: Make it a genuine loan.

GORDON: ...loan.

OLIVER: To play the devil's advocate and to get your reaction, it seems to me that possibly Mr. Black missed a bet: the Bank since that time has been interested in making local currency loans as part of the Bank's overall lending. And I should have thought that to have local currencies available...

GORDON: Availability.

OLIVER: ...in a bank account would have made a lot of sense.

GORDON: Well, that's right, and again in my memorandum I made the point that this would be one of the real advantages--to be able to have some effective say in the use of very substantial amounts of local resources. But anyway, that's the way it was.

OLIVER: When did this scheme begin to be spoken of as an IDA--I mean an international development authority of some kind?

GORDON: Well, in my memorandum I originally used the phrase "international development organization." And again Mr. Black didn't like that because he thought that would be confused with all the other UN organizations. Just the idea of the "O" at the end was something he didn't want. So he originally suggested "international development authority," and I said I didn't like that very much, because "authority" had a somewhat different connotation in other countries than it does here with TVA [Tennessee Valley Authority] or the New York Port Authority or whatever. And so we finally came up with "International Development Association," which has the appropriate, I think, collegial connotation.

OLIVER: Yes, it's a fine title. Well, may I infer that within the Bank your memorandum began a stream of thinking about these things and that, concurrently, something with a slightly different objective was going on in the staff of Mike Monroney and that these two trains of thought then met.

GORDON: Well, I think that very frankly there wasn't much going on within the Bank, because the staff were, I think, almost universally stymied by the feeling that somehow the initiative had to come from the U.S. Government. If it didn't come from there, then it was hopeless. I don't think that was mistaken, although I do think that the Bank could have shown more initiative at that stage. So the breakthrough certainly was the initiative that Gene Black took with the two Cabinet officers, and their immediately shunting the ball to Mike Monroney, who had been agitating in the Senate and who immediately took up the leadership there.

OLIVER: Yes. And you don't have much to add about the Monroney side of this, the background of his interest?

GORDON: I don't know much about that, I confess.

OLIVER: Well, now as far as the Bank itself is concerned, I want to ask a generic kind of question. I'll start it this way. According to the newspaper here in Washington during the last two or three days, the World Bank currently is not making a net contribution to development because the amount of repayment both of interest and principal is just about equal to the outflow of new loans. It is my impression that this kind of problem was being talked about in the Bank even in the fifties. In other words, it was a concern to the Bank that development might slow down when this sort of situation existed. I know the people in the Bank were worried about debt service ratios already. They were concerned about absorptive capacity, and so--assuming the funds were available--there must have been people in the Bank thinking that if some way could be found of loaning money at three percent instead of six percent, or at one percent instead of six percent, it would increase the lending capacity of the Bank by increasing absorptive capacity and reducing creditworthiness less than by other means of lending. What I'm asking as a general question is: were all these things being talked about in the Bank?

GORDON: Yes, they were, and this was a source of concern. And perhaps more of a frustration than anything else, was a feeling that we might be rapidly approaching limits to what we could do because we are by the terms of our Articles of Agreement and the sources of our funds, limited to a fairly strict kind of lending at...

OLIVER: Almost commercial rates.

GORDON: ...almost commercial rates, but relatively little below the commercial rates. And, of course, at that time the Bank hadn't built up the kind of reserves that it has acquired since then, so that the degree of flexibility that should now exist simply wasn't present then. So they felt hobbled, but they didn't really see a way out. To some extent, they relied on the quite substantial amounts of soft lending from bilateral sources to provide an undercushion for the Bank's lending. But this was a somewhat passive reliance rather than active role.

OLIVER: So your memorandum which won Gene Black's support was a really major breakthrough, was it not?

GORDON: Well, I don't think that there was anything extraordinarily novel or breathtakingly imaginative in it. I think it was an attempt to encapsulate what were some fairly obvious conclusions from the situation that existed at that time.

OLIVER: But it did very substantially over the years...

GORDON: But it did try to focus the argument and the issues in a way which I thought would be persuasive to the U.S. Government.

OLIVER: And it did result over the years in a substantial change in the Bank's organization and approach toward lending?

GORDON: Oh, very much so. One of the arguments that I made and which were made in some cases much more strongly in the Congress later on was that this would have the effect of substantially depoliticizing the aid program, or depoliticizing not so much the administration of aid--although that certainly was the case--but also the aid approval process in the Congress. If the U.S. appropriation was, let's say, an agreed 25 or 30 or 40 percent of a much larger total, Congress would almost be compelled to approve it because otherwise it would forfeit the rest. I know that Senator [J. William] Fulbright used this argument quite openly and effectively in those early days.

The difficulty with that, however, was that for the first time it did require the Bank's financing to become the subject of congressional action, and to that extent, it politicized the Bank more than before. Before, the Bank had simply done what it wanted to and had gotten its money from the market.

OLIVER: I've been told that some Congressmen, at least, saw this as a way of increasing American exports. The Public Law 480 funds, of course, had been tied to food shipments, and there was some thought that the American contribution to IDA would probably be used to finance similar exports, and possibly, even with the Europeans contributing, it would actually cause American exports to increase. Were you aware of those kind of arguments?

GORDON: Yes, and I think they were probably valid arguments, certainly at that time. The U.S. export potential was much greater than that of any other country. And if you had a pool of untied funds available, the U.S. would also certainly get more than its proportional share of the export benefit. This probably is no longer the case.

OLIVER: No. I've been told that when Mr. George Woods accepted the presidency of the World Bank in the tail end of 1962, he believed that IDA lending would come to surpass Bank lending and, indeed, had in his mind a formula that IDA would be about one-and-a-half times that of Bank lending. Had you ever heard that?

GORDON: Yes, well, I don't recall hearing from him a specific ratio. Certainly his conception of what the IDA appropriation ought to be or the IDA resources ought to be was much more ambitious than the conventional wisdom of that time within the Bank or in U.S. public opinion, and he was pressing for a much bigger IDA commitment from the U.S. and correspondingly from the other Part I countries than--well, he wanted a quantum jump in the IDA appropriation. And he didn't get it. It was not a propitious time.

OLIVER: He didn't get it in the short run. I think...

GORDON: No, in the end.

OLIVER: ...that by 1970...

GORDON: In the end it went even beyond his ambitions, yes.

OLIVER: Well, are there other comments that should be made on this general subject of IDA before we move on in your career?

GORDON: Well, I think I've said enough on that subject. If you have any other questions, I'll try to answer them.

OLIVER: Well, let's come back.

GORDON: Yes.

OLIVER: You had been in the Middle East. You became somewhat bored because Ethiopia was the only country in which there was substantial Bank activity. One question I wanted to ask about Suez: did you yourself participate in any of the Suez negotiations?

GORDON: I was in Guatemala at that time.

OLIVER: I see. All right. So you came back to Washington and were involved in the IDA work. What next happened in your Bank career?

GORDON: Well, then for a relatively brief period, about a year or year-and-a-half, I was the Assistant Director of the Development Services Department, which dealt with external relations and technical assistance and so on. And then I became the Bank's Resident Representative in Pakistan. And, again, this involved very much an advisory role as well as a liaison role.

OLIVER: Is this a two-person mission again?

GORDON: This started out as a two-person mission. It eventually built up all the way to four people during my tenure, and I stayed there from the end of 1960 until the middle of 1963. I came back again to the Development Services Department for two or three years, and then I set up the Permanent Mission in Eastern Africa--Nairobi--and was there for three-and-a-half years. I went back to Pakistan for a couple of years more until 1971. I was again in Washington for a year as Deputy Director of the Development Finance Companies Department. Then Mr. [Robert S.] McNamara asked me to go to Indonesia, succeeding Bernie [Bernard] Bell as Director of the World Bank Resident Staff there until 1975. And I came back to Washington as Director of a reorganized Development Finance Companies Department. And I stayed there until 1980, when I retired.

OLIVER: It sounds to me like more than half of your period of service in the Bank was spent overseas.

GORDON: I presume, yes, that's probably right. I was the stormy petrel of the organization.

OLIVER: Well, you were obviously an idea man wherever you were. I want to ask specifically about Nairobi, but just to get a few of these relationships straight, when you were in Development Services, was that under Dick Demuth?

GORDON: Dick Demuth, yes.

OLIVER: Yes. And the Development Finance Companies part was something that had happened after the whole development bank business under Bill [William] Diamond had come back out of IFC.

GORDON: It had come out of IFC to the Bank. That's right.

OLIVER: And at that time finance organizations were developing separately from development banks per se?

GORDON: Well, "development finance companies" is a generic term for all kinds of development financing institutions, including development banks.

OLIVER: And the sequence then was that the development finance institutions became metamorphosed--if that's the right word--into the industrial department of the...

GORDON: Well, there were, in the latter years of my Bank tenure, two industrial departments. One was the Industrial Projects Department, which dealt exclusively with individual projects, usually on a quite large scale--\$50 million and up--and which focused entirely on individual projects. The Industrial Development and Finance Department dealt with industrial policy, planning, strategy, and to some extent with advisory missions on industrial questions. It also dealt with relationships with the intermediary institutions--whatever they were called, development finance companies or development banks--and how they fitted into the industrial strategy of the country.

OLIVER: After the reorganization of 1972, did the Industrial Projects Staff remain a part of the Central Projects Staff?

GORDON: Yes.

OLIVER: So at that time you were in the...

GORDON: In Central Projects.

OLIVER: Yes. All right, now if we may, would you tell something about the opening of the office in Nairobi for East Africa. Some of the events associated with this was when many African countries were quite newly independent. It must have been a very interesting time.

GORDON: It was indeed. And at the time of the opening of the office at the end of 1965, I think there were only eight or nine countries that were independent or that were members of the Bank. At the end of the three-and-a-half years there were 16 that were theoretically within my purview. It was, at that time, by far the largest overseas mission that the Bank had. That didn't make it very large, but it still was larger than any others.

OLIVER: Larger than the two-person missions you'd been on before.

GORDON: That's right. It had two or three agricultural experts, two or three transportation experts, an economist, and one or two other loan officer types. And it also had what I think was an extraordinarily useful innovation, something called the Agricultural Development Service, which started out with about half a dozen and eventually grew to, I think, 12 to 15 people, who were employed not as regular staff members of the Bank but as permanent contract employees--I guess on five-year contracts--to be available, in effect, for rent to agricultural projects, to manage agricultural projects in the eastern half of Africa. Later on, they also got more and more into the preparation of projects and the designing of projects that eventually became eligible or appropriate for Bank financing.

These were non-Africans who, however, had lived in Africa for many years as civil servants or as farmers and whose career prospects under independence were...

OLIVER: Reduced.

GORDON: ...coming to an end or phasing out, who had had, in many cases, many years of experience and had demonstrated success and who didn't particularly want to go back to England and become the secretary of a golf club. Their lives would have been wasted in that capacity, and they still had a great deal to contribute to the African scene. We were careful to choose people who had demonstrated their ability to get along with the Africans and who worked comfortably with them.

OLIVER: I have been told that Lady Jackson--Barbara Ward--had some hand in suggesting that this...

GORDON: She did and she had, sometime prior to that, in the early sixties, spent a good deal of time in Kenya and had gotten to know among others a man named Alexander Storrar, who was the Director of Settlements in the Kenya Government. And he is the one who designed and managed the program for settling Africans in the white highlands. She had been very much impressed with his work, and they had discussed the tragedy of the loss of these experienced, capable people. She had come back to Washington and had discussed this with George Woods and had gotten him interested. And in 1965, before I took up the assignment in Nairobi, I was sent out to East Africa to explore the possibility of setting up this Agricultural Development Service. And Storrar became the first head of that service in the Permanent Mission in Nairobi. He subsequently came back to the Bank, had a distinguished career in other parts of the world and retired two or three years ago.

OLIVER: I understand that when he was President, George Woods visited your Permanent Mission in Nairobi. Could you say just a bit about that occasion and whatever you care to say in general about the mission while you were there?

GORDON: Well, George came out for--I think it must have been about two weeks he spent in the three countries of East Africa--Kenya, Uganda and Tanzania--and had meetings, of course, with the governments at the highest levels and traveled quite widely, saw a number of projects and, of course, toured the game parks and elsewhere. It was quite an impressive visit. There was a good deal of impedimenta accompanying him and Louise [Woods], and we traveled around in two airplanes. I don't think there was anything very extraordinary about the visit except that he was very well received, and I think was very impressed with what he saw, both with the potential of the countries and the people that he met in government and business. I hope he was impressed with the work that the Bank was doing there. I think he was.

OLIVER: Just sort of a question about style. Some of the Bank Presidents I know traveled with their own water and other health safeguards. Did the Woods do that too?

GORDON: I guess so, yes. I think they did. I didn't really take very much notice.

OLIVER: Do remember whether Mr. [George] Wishart was along?

GORDON: Yes, George Wishart was very much present.

OLIVER: Was Bernadette Schmitt, his secretary?

GORDON: No, I don't think she accompanied him. I don't recall exactly, but I don't think so.

OLIVER: Was Mr. Woods a good negotiator on a one-to-one basis with local government officials?

GORDON: I think so, yes, although I think sometimes his directness took them aback a little bit; he did very much come to the point, and he expressed his views very succinctly and directly, and there was no attempt to sugar coat them. But I think he made a very good impression.

OLIVER: His views being concerned with financing of projects or the running of the government?

GORDON: Well, one of the things that I was quite concerned with and that was subject of much discussion at that time was whether the Bank should consider making a loan to one or more of the development banks in East Africa that had been established under the auspices of the Colonial Development Corporation--which had share participation from the British, Dutch, German and some other sources as well as the local government. And George was very adamant that the Bank was simply not going to lend to any development finance company that was controlled by governments. They tried to press him by pointing out that these were several governments that controlled it and, therefore, it was not under the thumb of anyone, but the idea of lending money to an institution which was governmental in nature was excluded, and he made that very clear; he wasn't prepared to discuss it.

OLIVER: Did the question of percentages even come up? Would he have objected if less than 50 percent of the financing had come from a government?

GORDON: Oh, I think if there had been majority private financing and effective majority private control, I think that would have been a different matter. And indeed some of the institutions that we had financed previously had a substantial government minority share.

OLIVER: But at any rate, the point you're making is that when he had a point to make, he would make it rather bluntly.

GORDON: He would make it rather bluntly and not be too worried about whether his interlocutors understood all the reasoning behind it...

OLIVER: He'd come from a background where he was accustomed to issuing edicts, so to speak.

GORDON: Well, that's right. That's right. His word went, and he didn't have to justify himself.

OLIVER: All right, are there any other comments you can think of to make in connection with that trip?

GORDON: I don't think so.

OLIVER: How about the rest of your stay in Nairobi as a general...

GORDON: Well, I found it a both extraordinarily pleasant and an extremely interesting place. It's physically an enormously attractive part of the world and, at that time certainly, the ease and comfort of living was outstanding. The climate was wonderful and so on, and the freedom to--indeed the invitation to--travel more or less at will among 16 different countries was very attractive.

The only problem was, of course, that if you have 16 countries to pay some attention to, the attention is likely to be pretty superficial. And I did miss the rather intimate relationships that we had in, for example, Guatemala or Pakistan where I was deeply involved in all the domestic affairs.

OLIVER: Just a question about living...

GORDON: But I must say I had many, many good and very close friends there. People like Tom Mboya for example, who was a very outstanding person, and I'm proud to say, I think he was a very good friend.

OLIVER: Just a question about living conditions. I was in Nairobi in the Norfolk Hotel in, I think, 1961, and mosquito nets were still necessary. Were they used when you were there?

GORDON: Yes, but it depended a little on the season. The mosquitoes...

OLIVER: This would have been July when I was there.

GORDON: Yes. The mosquitoes were very much in evidence for relatively short periods of the year. Most of the time it wasn't too bad. And if there was a breeze, it didn't matter too much. But air conditioning, of course, was virtually unknown, and so everything was open to the breeze and screening was regarded as for sissies and as interrupting the free flow of air, so they didn't use screens very much.

OLIVER: You were speaking of about 16 countries. Were all of those independent by then?

GORDON: All independent. All members of the Bank.

OLIVER: Yes. So they had all become members of the Bank, I suppose, in the previous five years or something like that.

GORDON: Oh, yes. Well, none of them had been members of the Bank before 1963 or so.

OLIVER: Yes. Was this a time when some attempt was made to establish agricultural...

GORDON: Except Sudan and Ethiopia.

OLIVER: Okay. They'd been independent for a long time.

GORDON: That's right.

OLIVER: When you were there, was there an attempt to deal with agriculture? I've heard about agricultural projects started in Africa which failed in the early days, or at least did not live up to the cost-benefit ratios anticipated.

GORDON: Well, that's right. There were, of course, some very notable fiascoes. The Tanganyika ground-nut scheme, for example.

OLIVER: That wasn't a Bank scheme, was it?

GORDON: No, no. No, that was a British Government scheme. But there were some Bank schemes that were not as successful as they should have been, and I think that the Bank during that period was not as conversant with African conditions as it should have been, agricultural conditions. The Bank agricultural experts were Americans or British or Australians, and they knew the conditions in the those countries. And they tried, in some cases, to apply the criteria that they knew about, and they simply didn't work well. They learned, I hope, properly. And the Bank certainly was not alone in this.

The FAO made some terrible bloopers in that time. I remember one FAO project that we rescued, which eventually became a very successful one--the Lilongwe Project in Malawi. But at one point the FAO people were told to leave the country and never come back. I think I remember another case where a Bank appraisal mission came and vetoed a livestock ranching project in Tanzania because they said that a large part of the land was flooded and waterlogged and obviously unfit for the cattle to graze on. Well, of course, they forgot this was the rainy season, and that four months later it would be dry as a bone and that the cattle would thrive enormously on the grass that had grown during the flood season.

But it's easy to cite aberrations of that kind. They were certainly not typical, but they were not totally uncommon.

OLIVER: Well, the newspaper headlines today indicate that even in the United States in 1986, there's sometimes problems raising cattle due to the changes and vagaries of the weather.

GORDON: Oh, sure. Yes.

OLIVER: The Europeans that Lady Jackson and others suggested the Bank retain--were they people who had been concerned more with what might be called plantation agriculture or colonial agriculture than with the rural agriculture that the Bank became interested in under McNamara?

GORDON: Both. Some of them had been in the colonial agricultural service working with Africans in trying to upgrade the smallholder agriculture--often, however, smallholder commercial agriculture, tree crops or tea or that sort of thing, which required commercial standards of productions. But they were also trying to improve subsistence crops of corn and other similar cultivation. Some of them had owned farms or managed farms for Europeans, and these were large-scale production but not of a very intensive kind. Very often they were cattle ranches or were large sisal or cotton plantations.

OLIVER: May I ask a few questions now about the relation between Headquarters on the one hand, and the many missions that you worked on overseas? Some people in the Bank, particularly those who have worked a good deal overseas, have suggested that the Bank is too heavily centralized and that more autonomy needs to be given to overseas missions, and that perhaps there need to be more overseas missions than there have been. Of course, they've expanded a great deal in the last...

GORDON: Yes, the number now, of course, is much greater than in the days when I spent most of my career. But, yes, I think that's a very valid complaint and one that I have made myself on a number of occasions. I think the Bank is excessively centralized. I think, to some extent, it is inherent in the Bank's Articles of Agreement and certainly in its organizational structure. That is to say that each loan decision, for example, has to be approved by the Board of Directors. The Board of Directors has now become accustomed to having the people who prepare, justify and analyze the loan available for questioning and for giving them all the detailed answers and so on, which would be extraordinarily difficult if this had to be done by communications from the field. So unless the Management and the Board are prepared quite explicitly to delegate a good deal more operational responsibility to a manager on the spot than has ever been the case in the past, then I think the possibility of much more effective decentralization is rather limited.

[GORDON]

I think that the extent of contact and the continuity of contact in the field has increased considerably, and I think this is all to the good. I think it was far too limited in the past. There is, I think, something--what is the word?--rather arrogant and high-handed for missions to show up on a Monday morning and demand to see the minister, to spend half-an-hour telling him what they propose to do, then to go off and do their work and come back ten days later and say, "This is what we have decided," and then to go home again and pay no further attention to him, and leave him and his government holding the bag that they have prepared. And I know that this is sometimes rather resented by the people subjected to that kind of treatment.

OLIVER: Does it still happen, or are you talking of an earlier...

GORDON: No, it still happens.

OLIVER: It still happens?

GORDON: It still happens. And the trouble is, of course, that by and large the Bank staff when they prepare these projects or shape up these projects and appraise them and specify the terms and negotiate the terms and so on, they really do not have to live with the day-to-day consequences. And this gives an aura, if not always the reality, of irresponsibility.

OLIVER: Sure. I should have thought it would tend to give an individual member of a mission a feeling of greater omniscience than he in fact possesses.

GORDON: Yes. Yes, there's no doubt that's true. The Bank has, by and large, a very competent staff, but I think that this pattern of operations does have a tendency to inculcate a sort of godlike psychology that can be dangerous.

OLIVER: You mentioned earlier, I believe, that you succeeded Bernie Bell in Indonesia. I happen to have been at the Bank at the time that Bernie Bell was in Indonesia, and I had the feeling that it was in the Bank--let us say in Washington--quite impossible for a project to be proposed for Indonesia without its having been authorized by Bernie Bell and perhaps, in some sense, suggested by him. In other words, while not everything he recommended was necessarily put through the Loan Committee process here, he certainly had a very substantial veto.

GORDON: Yes. Well, I think that his situation was really quite unique, and I must say he was a very hard act to follow. He first had a long and very close association with the Indonesians before he went out there for the Bank.

OLIVER: He still does.

GORDON: He still does. But I mean to say that he had worked closely with the whole Berkeley Mafia for a dozen years before he went representing the Bank, so that he had a very strong personal relationship with them, and in Indonesia, that is a tremendous asset.

OLIVER: Could I interject that the Berkeley Mafia worked for BAPPENAS [Badan Perencanaan Pembangunan Nasional], the national planning organization?

GORDON: Well, it was more than that. They were the entire economic team. They included the head of the Central Bank and the Minister of Finance and the Minister of BAPPENAS, the planning ministry, or the planning board. It included the Minister of Energy, of Transmigration and so on.

OLIVER: And they were called the Berkeley Mafia because most of them had gone to Berkeley.

GORDON: Most of them had gone to Berkeley. That's right. And they were a very closely knit group of relatively young, very reform-minded people who had come in with, had been brought in by Suharto because he needed the kind of technical capabilities that they had, and he knew nothing about economics himself, and he needed the kind of confidence that they could generate in the outside world and so on. So they were in a very strong position. They were very, very closely interlinked, and they have played, for over 20 years now, a crucial role in the direction of Indonesian economy. And Bernie had known them for many years. He also had a very strong position with Mr. McNamara. Before he went out to Indonesia, he had insisted on getting terms of reference that in effect insulated him from the kind of staff intervention that had been the bane of some other overseas missions.

And I must say that I found it difficult to establish the same kind of relationship with the Indonesians, although I had good relations with them most of the time. The other thing was that Bernie came into the Indonesian picture on behalf of the Bank at the time when Indonesia

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was flat on its back. By the time I arrived they had gotten off their backs. The oil prices were going up. They felt much more self-confident. They were in good odor with lenders and aid-givers. They didn't feel that they needed the same kind of tender loving care.

OLIVER: You must have gone out in 1974 or something like that.

GORDON: No, I went out at the end of 1972. And they were beginning to feel their oats. There was no particular reason why they should take the kind of guff from foreigners of any kind, including the Bank, that they had three or four years earlier. In a sense Bernie was the talisman who had enabled them to achieve this rising from the ashes--mix a metaphor.

OLIVER: There had been a consortium for Indonesia, had there not?

GORDON: Yes, called the Intergovernmental Group on Indonesia--IGGI--which was under the chairmanship of The Netherlands and which met, and still does meet, annually in Amsterdam.

OLIVER: But Bernie Bell was a major agent--is that the proper word?

GORDON: Well, he was the leading spirit, but the Bank provided, in effect, the technical secretariat for the IGGI. It prepares the annual status report, situation report and recommendations and sets the tone for the meeting. And that was true in my tenure as well. It was a recognized role.

OLIVER: Now, as I recall--excuse me, you were about to add something.

GORDON: No, but I want to say that very shortly after I got to Indonesia, Burke Knapp and Peter Cargill made it tactfully but abundantly clear that the kind of independence that Bernie Bell had enjoyed just was not going to be available to me.

OLIVER: Was there a reason given?

GORDON: No, this was just the way the Bank operated.

OLIVER: Yes. Well, you came back from Indonesia then in 1976, did you say?

GORDON: The end of 1975.

OLIVER: 1975. And you retired...

GORDON: In 1980.

OLIVER: In 1980. What would you care to remark about in connection with the years 1976 through 1980?

GORDON: Well, this was a period of recasting and to some extent reorienting the industrial lending sector, industrial lending policy. In the first place, I think we tried, for the first time, really to give some strategic orientation and thrust to our industrial lending. In the past, it had been strictly project-oriented. You picked an institution and you tried to make it as good an institution as possible by giving it whatever support and technical assistance it needed, and by lending it money and supervising it to make sure it did its job properly. But what it did with the money, apart from some very general criteria, was of no great concern. This was development. Or you picked out a keystone project--a cement plant, or a steel rolling mill or whatever--and said this is what we're going to finance in the industrial sector this year in this country. And you financed it, again making sure that it was as well done technically as possible. But there was very little in the way of defining how this all fitted in with the overall development strategy of the country, what kind of an industrial pattern you wanted to achieve, how it related to the agricultural sector, whether it fitted with the factors of production that were most economically usable and so on.

We tried to change that by introducing a much greater attention to industrial policy and strategy. In many countries, part of that took the form of a much greater emphasis on smaller and less labor-intensive industrial development that, to some extent, required an orientation in that direction on the part of the institutions that we were financing. In some cases it required structuring or initiating institutions that would move in that direction.

In 1976, I guess, around 95 percent of our industrial lending went to the largest 10 percent of the industrial sector. In 1978 or 1979, something like 30 percent, 35 percent, went to small industrial establishments. And we were working toward a much greater proportion.

[GORDON]

I'd say that was the major thrust, but I won't say that we were totally successful. This was just a trend, but it was, I think, a useful trend to try to introduce a little more rationality into the industrial lending.

OLIVER: Was the shift...

GORDON: And not only industrial lending but also our influence on industrial policy which, of course, involved a lot of other things other than size or capital intensity. There were questions of pricing, questions of protection, questions of trade policy and so on.

OLIVER: Was it also related in any way to the Bank's relatively new feelings about income redistribution?

GORDON: Well, this was part of it, yes. It was very much part of it, except that, although there obviously was a relation, it was by no means a very direct relationship between small enterprise and income distribution.

OLIVER: How about riskiness or high-venture capital kind of issues?

GORDON: Well, of course, the principal reason why most of our loans had gone to large and well established industries was that the institutions involved thought that first, it was the easiest kind of lending to do. You could do it in large chunks and without too much administrative work. But also it was considered to be less risky.

My impression is, however--and it's difficult to remember the statistical evidence, but my impression is--that the record of small borrowers in repayment, on the whole, was rather better than that of the large borrowers. It might have been more time-consuming to keep the books on a lot of small borrowers, but their trustworthiness was probably at least as great as the big fellows.

OLIVER: Looking back on your total career in the Bank, which period would you say gave you the greatest satisfaction, that you remember most fondly?

GORDON: Well, it's very difficult to say. Very difficult to say. I must say it was overall a very interesting and very satisfying 30 years. I think the period in Guatemala was extremely interesting. I wrote most of the First Five-Year Plan for Guatemala and was very much involved in complicated negotiations with the American and Foreign Power Company and with some other American interests and with getting myself in trouble with the American Embassy. The time in Nairobi was extremely pleasant. The first assignment in Pakistan was substantively very satisfying, because that was when Pakistan was doing pretty well and had a pretty competent administration. The second time was much less so.

OLIVER: Is there a story about your relations in Guatemala with the American Embassy which I should ask you about?

GORDON: Well, I don't know. There was just one rather interesting detail, I think. The first Ambassador from the United States when I was there was Norman Armour, who was an elder statesman and a very well balanced and solid fellow, and we got along excellently. And when I recounted to him some of the complaints about the American and Foreign Power Company--of which he was a member of the Board of Directors, incidentally--he was very indignant and he wrote the chairman in very harsh terms. His successor was a very different type, and he took very seriously his responsibilities as sort of the American proconsul in Guatemala. He arranged to bring in, under American aid, a team of advisors who were going to set the economic policy for Guatemala. They were nice fellows, and I got along fine with them, but they didn't really have much of an in with the Guatemalans.

And at that time I was routinely asked--and in fact I think I was formally asked--to sit in on the meetings of the National Planning Council, which met every week and discussed various policy issues. The Ambassador thought that it wasn't appropriate for me to sit in on those meetings if the chief of the U.S. advisory team did not. So he insisted that the Government should invite the U.S. advisor to sit in as well. And after a certain amount of hemming and hawing the Government did invite him to come, and from then on, the formal meetings of the National Planning Council lasted for approximately ten minutes, and then they and I would adjourn to the Guatemala Club, and over whiskeys we would continue our meeting.

OLIVER: That's marvelous. Well, I'm sorry to say that the tape has about run out. I do want to thank you very much for this opportunity to ask these questions. I think you have lots more information that the Archives will be interested in, so I hope this is just the first of several interviews.

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GORDON: Well, it's been a pleasure, Bob, and I'm always glad to talk.

OLIVER: I think you have lots of interesting experiences, and if it's not the wrong word to use, I think you had a lot of fun with them.

GORDON: I've enjoyed it. It's been a very interesting and rewarding 30-year period.

OLIVER: Thank you.