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A CONVERSATION WITH RAVI GULHATI

Washington, D.C.

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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OLIVER: Mr. Gulhati, would you say a bit about how you came to the Bank in the first place and about what you are now doing?

GULHATI: Thank you. I joined the Bank in the summer of 1955 when I worked as a research assistant to Edgar Hoover who was then writing a book on the population problems of India and Pakistan. I joined the permanent staff in 1956 and have been with the Bank ever since. I am now the chief economist for Eastern and Southern Africa, a region which has 21 countries. I am responsible for the economic work we do in these countries at the macro, sector, and project levels.

When I joined the Bank, the economic staff was headed by Leonard Rist. I worked as a research assistant, or a junior economist, with Drag Avramovic who was then writing a major work on external debt issues. I worked with him on this subject quite a long time. Over a period of years, this ended up in the production of three books on the external debt question.

The external debt issues at that time were really of relevance basically in Latin America which was the major set of countries that had borrowed on commercial terms. You will recall that, in the late '50s, there were a number of reschedulings of the debts of Latin American countries. It was in that context that Avramovic was asked

to survey the issue to see if he could shed some light on it. This then led to a second volume and a third volume which went back to the subject after a number of years. The first volume came out in 1958, the second one, in 1960. The third one, which may be of some interest in the context of the conversation we are going to be having, was prepared at the request of the OECD and was finished in 1964. It was in the Woods' period. It was quite an important piece of work (even if I say so), because, for the first time that I know of, it related the debt issue to the whole process of economic development.

Avramovic was one of several acting heads of the economics staff. There was a period after the departure of Mr. Rist and before the arrival of Andy Kamarck and Irving Friedman when the economic staff did not have a head. A number of people, including John de Wilde and Drag Avramovic, acted in that capacity without actually being appointed head of the department.

The economists in the Bank in the Eugene Black period were not very influential. The Economic Staff was really a backwater. Most of the policy questions for the Bank were in fact dealt with and worked on by a department headed by Dick Demuth. I had the impression at that time that the economists were rarely involved in policy work; the lawyers were really much more influential. Then there was a very large expansion in the Economics Department under Irving Friedman. The economics work in the Bank got quite a bit more prominent in terms of its impact on policy.

My disadvantage in talking about this is that, in 1966, I left

the Bank to go back to work for the government of India in the Finance Ministry as Director of the Department of Economic Affairs, so I didn't quite see the blossoming of this initiative which was clearly in the making. I came back to the Bank at the end of 1968 to join the staff of the Pearson Commission, and again I was absent for a whole year while doing work on the report of the Pearson Commission.

I did work with Irving Friedman on the study of supplementary financial measures which started sometime in 1964, I guess, and went on for more than a year. This proposal had been tabled by the UK and Sweden at the 1964 UNCTAD conference in Geneva. The Bank was asked to examine the capability of establishing a facility to deal with the adverse impact of export short-falls on economic development. That was a point of departure for an exercise which involved a group of 6 or 7 people who met several times a week in Irving Friedman's office to see how we could respond to this particular request.

I can recall that these discussions would gather momentum, and we would, from time to time, be drawn into subjects which were outside the scope of the UK-Swedish proposal insofar as we were involved in discussions of development assistance in general as distinct from the kind of financial assistance which might be available in the event of an export short-fall. We found it difficult to separate these two things. We were aware that, in trying to deal with the subject that we had been asked to deal with by the UNCTAD Conference, we were perhaps addressing a small part of a much larger problem. This was, in fact, a difficulty which persisted throughout our discussions. It may

partly explain the fate of the proposal when it finally came out.

OLIVER: What was the proposal?

GULHATI: Well, the idea was that external financial resources should be available to help countries to sustain their development plans in the event of an export short-fall. That begs the question of what the nature of the plan was: What was the policy framework on which it was built? How realistic were the financial calculations which provided the framework for the plan? and How was the plan going to be financed in the first place? How much external assistance was visualised? We were asked to try to think about a proposal which would deal with what would happen in the event of an export short-fall mid stream in the implementation of a plan. We were not asked to look at the questions What are the normal flows of development assistance? What triggers normal flows of assistance? How should allocation of external assistance be allocated among countries? What were the governing forces that covered the allocation of financial assistance from abroad? and so on. We felt that we were on to the tail of the dog rather than the dog itself.

OLIVER: I take it you talked about the dog a bit also.

GULHATI: I think so. I am not sure of my facts, but my impression was that we visualized that before a country was judged to be eligible for such special financing, there would have to be a discussion by the country and the Bank about the development plan which was being sought. We visualized that there would have to be this discussion about the development plan, its quality and its reasonableness; and

the framework of the plan would be looked at; projections would have to be reasonable; and the policy framework would have to be satisfactory. Only if all these conditions were met would the country be eligible to receive help in the event of an export short-fall.

OLIVER: I realize, of course, that there is no supplementary finance plan in existence at the present time, but I want to ask the question: Does the Bank today come fairly close to doing the same kind of programming with its sector adjustment lending?

GULHATI: Well, the Bank has been in the business of reviewing five-year plans, but I think the seriousness with which such evaluations are done varies a great deal. I'm sure that if there is something operational to emerge out of these evaluations, like, for example, eligibility for a particular scheme or recommendations to a consortia of aid donors, then the quality and the depth of the evaluations would have to be quite different. What has happened, of course, in the part of the Bank that I am now working in -- Africa, five-year plans are a thing of the past. Many of the countries in the region are so much affected by financial difficulties that the whole idea of planning for five or six years is a remote one. More countries are trying to look at the next three years, so we have a more truncated time horizon for planning than used to be the case in the '60s. In fact, the whole idea of development planning has fallen into disfavor in the sense that it was practiced in the '60s and '70s.

OLIVER: You mention the '60s.

GULHATI: Development planning was started in India in 1951 borrowing

from Soviet experience. It spread from there. In America I think it was very different in the sense that development planning did not have a great deal of operational meaning. It was very late in the day when Latin American countries started to have something that was similar.

OLIVER: In the case of the African countries, they were only becoming independent in the '60s.

GULHATI: I think you are probably right about that. Of course Arthur Lewis was beginning to do his thing in Ghana in the mid '50s. I have never worked in Nigeria, but my impression is that Nigerians made some initial efforts in the planning direction in the early '60s or thereabouts. At any rate, what I think we are now saying to our countries is that five-year plans even longer perspective plans are somewhat remote from operational policy making and annual budgets. Something like a three-year plan is difficult enough because things are changing so rapidly and there is so much uncertainty.

OLIVER: Well, if that is true, then is it not probable the supplementary finance scheme was unrealistic?

GULHATI: Of course, in the 1960s, the world looked quite a bit different. World trade was growing. What has happened since then is the first oil price increase and then the second oil price increase. Now we have an environment in which development planning is quite difficult. If the supplementary financial measure had been adopted, it could have run into rough weather in the '70s. My feeling is that, although we had, as I have said earlier, our hand on the tail of the dog, if this proposal had been acted on positively, it would have

evolved. It would have had an inner dynamic and would have led to a questioning of the framework for normal foreign assistance and for planning as a whole rather than just in terms of the impact of export short-falls. Whether the world was prepared for that is another issue. In fact not even today is it ready for that -- except under very dire circumstances such as prevail in Africa today.

OLIVER: Well, some people today see debts in life and death terms of supplementary finance.

GULHATI: That is an interesting analogy. There was a proposal recently for the International Monetary Fund to have a facility which debtor countries could draw on in the event that variable interest rates on external debts turned out to be higher than they had been anticipated, or that there should be a cap on these interest rates, so that countries could in fact insure themselves against interest rates rising above a particular level.

OLIVER: This is a proposal that is separate from the Compensatory Finance Scheme?

GULHATI: The Compensatory Financing Facility only deals with export short-falls and with the need for cereal imports in the event of a domestic production crisis. I recall there were a number of discussions with the IMF because obviously the two proposals had to have some kind of an interface. It was recognized that what we were trying to construct in this proposal was really of a different order of magnitude and was on a different plane, a different logical plane, because in the Compensatory Financing Scheme of the Fund, the short-

fall is calculated by comparing actual exports with a three year coverage which is a result of a formula, which puts a lot of weight on actual exports in the year of the short-fall as well as a projection year, and a preceding year. That is a very different kind of thing from trying to finance, short-falls which arise as the difference between plan projections for say five-years, and the actual exports of a bad year. We could never convince the Fund of the usefulness of our supplementary financial measures. On the other hand, they could never convince us that the existing IMF facility met the kind of objectives that sponsors of this proposal in UNCTAD had. There was no meeting of minds in the Fund and the Bank.

OLIVER: What eventually happened?

GULHATI: My recollection is that when we had finished the report, it received some quite critical comments from within the Bank staff. It was pointed out, quite rightly, that this would mean a major expansion of the Bank's economic work and would also get us into a very different kind of lending. If you were going to adopt this kind of approach to supplementary finance, this would rub off on the normal flow of finance from IDA, and nobody was prepared to abandon the way in which project aid was being administered by IDA. So, as I said, the proposal, when it came out, had a rough time within the Bank as well as in the Fund. Nevertheless, I remember that, before I went to India, Mr. Woods had signed off on this proposal. It was in fact formally submitted to UNCTAD, and was subsequently published. Then, as I watched it from New Delhi, I saw that it was being endlessly

debated in various fora of the UNCTAD. Various expert groups were appointed to look at this aspect and that aspect. I don't know the details of this too much, but I know that a number of my friends were looking at this. One of these people, by the way -- a person who is now a very senior official in the Finance Ministry in India -- used to come to India from Washington and tell me about all the discussions which were going on in international fora in 1967 discussing the supplementary financial measures. This obviously didn't proceed very far; after awhile, I think everyone got tired of discussing it, and it was put on the shelf.

OLIVER: Was the availability of additional IDA money an issue?

GULHATI: That was also an issue in discussions within the Bank. They talked about whether rich country governments would contribute additional monies or would the new scheme encroach on budgets that rich country governments had in mind for the next normal replenishment of IDA. Of course, many in the Bank were quite set against providing competition to IDA. That was an issue.

OLIVER: Was it suggested at the time that the world needed some sort of a commodity stabilization scheme?

GULHATI: We did discuss this point in the report and in the proposal that we made. There are different ways of dealing with price fluctuations. We compared and contrasted and discussed the costs and benefits of the financial approach to the new scheme, the approach embodied in the Compensatory Financing Facility in the Monetary Fund, as against the commodity approach, which was always very much a

favorite of the French. I guess we came to the conclusion that the commodity approach could be complimentary; there is no inherent inconsistency.

Even if you had a lot more commodity schemes, however, you would still require a financial scheme to deal with the impact of price fluctuations of commodities not governed by the commodities agreements. The commodity schemes only covered the impact of price fluctuations, moreover, whereas this scheme would also have covered the impact of quantity fluctuations which were the result of international recessions and domestic harvest failures. I think that the proposal itself lays out the rationale regardless of what happens to commodity schemes; it argued that this would be a useful piece of international machinery notwithstanding existing commodity schemes as well as new ones.

OLIVER: Do you happen to remember what Drag Avramovic thought about the Supplementary Finance Scheme in contrast to the commodity stabilization proposals he worked on?

GULHATI: I think you should explore that question with Drag. My impression that he was not so keen on supplementary financial measures, but I may be wrong.

OLIVER: Do you know anything about the other economics work that was going on in the Bank?

GULHATI: Yes, I can say something about one other thing which I was involved with and which had some ramifications. That was the concern at that time about what the total capital requirements of developing

countries should be. This was something which got discussed in many different ways. I remember I was asked by Irving Friedman to participate in an expert group which was established by the Development Assistance Committee in Paris to examine the methodological approach to estimating external capital requirements. I remember going to many of these meetings. Finally we produced a report.

OLIVER: Methodological issues were discussed in Paris?

GULHATI: Yes. I think that the kind of methodology that the experts were talking about was much more rigorous and much less vulnerable to subjective assessments. The expert group was heavily influenced by the work Tinbergen, Hollis Chenery and Alan Strout had done. All of them were members of the Expert Group.

OLIVER: Do you think these models should have had more influence on the Bank?

GULHATI: I would say the Chenery-Strout model has had an impact on the Bank in terms of the way we think about our country programming papers now. Are you familiar with country programming papers?

OLIVER: In general.

GULHATI: One of the things that country programming papers do is to estimate external capital requirements. There is a standard model which most country economists use. It is called the Reduced Minimal Standard Model. If one examines the genesis of that model, one can relate it to the methodological approach which was described in the report of the expert group. Models remain very controversial in the

Bank, but it certainly is more familiar territory now than it used to be. Chenery tried during his period in the Bank to develop the model and to make it operational.

OLIVER: Hasn't there always been a bit of a schism in the Bank between operations and research?

GULHATI: The cultural milieu of the operators is quite a bit different from that of the researchers in the Bank. In my career in the Bank, I have had many jobs in operations, and Chenery appointed me head of the Development Economics Department. I stayed there for four years. I have seen both sides of the gulf, and I can say that this alienation has existed ever since I have been in the Bank. It takes very special attributes to communicate across this frontier. The Bank has tried over the years a number of institutional ways of lessening this gap, this gulf, and I guess that probably, although I am not a very good source for a judgement on this, my impression is that the gulf has diminished. There is in fact more understanding. There is certainly more understanding on the part of the researchers. They have to find ways of communicating better what they are doing to involve operational people more in the process of research and finally to communicate more intelligently the findings that they come out with -- to relate them to the operational side. The new economists who have joined us in the last five to ten years have been much more skillful in the use of policy tools, and have more understanding of the framework within which research is conducted. They have more tolerance for, and are more interested in, operations. Some

operators are very enthusiastic about the research, but I think I would have to say that there still persists a substantial distance between the two sides.

In the 60s, things were much less systematic. It was a very much more hit-or-miss kind of exercise. I gave you the instance of the work on external debt which was probably done because Avramovic was present, and Avramovic had a great interest in this. There was this request from the OECD to do quite a substantial study, but this need not have happened. There was no systematic research planning capacity, or financing; and very little evaluation of research or organization to disseminate the research. This improved after the establishment of the research committee, which, I think, took place right after Hollis Chenery came.

There has taken place an evolution in the research function; a cycle has been developed. One could say this is bureaucratized research and is less creative. That is always the cost one pays. I think some of the work that was done in '50s and '60s was very innovative, but it was highly related to individuals. The work on commodities was attractive. A lot of work was done on projects, on the methodology for project appraisal. A lot of it was done outside the Bank, but some of it was done inside by people like Herman Van Der Tak.

OLIVER: Van Der Tak was in the Economics Staff, but parallel work was being done, I think, at the same time in the Projects Department.

GULHATI: I wasn't aware of it.

OLIVER: I will follow up. What about policy work on population?

GULHATI: I don't think much happened as far as I am aware. Maybe I am betraying my ignorance, but I don't think there was very much population work of an innovative nature apart from Coale and Hoover in the 1950s. Subsequently, in the '70s, there was a lot of work on the whole issue of determinants of fertility, inside and outside the Bank.

OLIVER: I suppose one of the major functions of the Economics Department is to stay abreast of the literature.

GULHATI: I think that is now becoming more systematized.

OLIVER: We have just five minutes left, I'm sorry to say. What would you like to talk about?

GULHATI: When I went to India in 1966, the relationship between the Bank and India had been very much strained by the emotions embodied in the Bell Mission Report and its aftermath involving also the question of the external assistance which was not delivered -- at least that was the opinion of the Indians.

I remember when I came to India to work in the Ministry of Finance, people had trouble accepting me. I was sort of linked with the Bank. I don't know if this is any use to you. It was a low point in the history of Bank-India relationships.

OLIVER: Was it that the Bell Mission recommendations were wrong, or was it more a public relation problem?

GULHATI: I think it was a major turnaround in the Bank's posture. You see up until that time, the Bank had been very much an advocate of India's position. The Bank had established a consortium in 1959 to help India mobilize external assistance, and there was very little by

way of a critique of India's policies -- certainly very little conditionality and or any hint of it. The Bell report was the first move in a completely new endeavor which was to look very hard and critically at India's economic policies. This generated a great deal of antagonism from Indian officialdom.

The posture of the Bank changed from being an advocate to becoming a provider of conditional resources, and, of course, the whole discussion on exchange rates ran into some bad luck because of the timing. This happened to take place at the same time that Indian agriculture had a drought, and there was a major short-fall in supplies. The trauma rubbed off on the policy move to change the exchange rate. Indian journalists were all very exercised about the currency devaluation: "Look at what it has produced."

OLIVER: I think Mr. Woods as an individual was not very popular in India at that time.

GULHATI: I'm sure there was something of that, but I would say that the issues the Bell Mission addressed were very critical issues for Indian economic policy. Some of their recommendations were right, but there was a lot of static.

OLIVER: Well, I think that is a good conclusion on which to end our conversation. Thank you ever so much for your courtesy and time.