

Reference Copy

79029

THE WORLD BANK GROUP/HISTORIAN'S OFFICE

ORAL HISTORY PROGRAM

Transcript of interview with

JONAS H. HARALZ

November 11, 1993

By: W. Becker & D. Milobsky

Jonas Haralz

Q: I'm William Becker with George Washington University and the Business History Group.

Q: I'm Jochen Kraske, the Bank Historian.

Q: I'm David Milobsky, and I work in the Bank Historian's Office.

A: I am Jonas Haralz, and I am a Visiting Fellow with the Overseas Development Council and a former Executive Director of the Bank for the Nordic countries.

Q: Mr. Haralz, we'd like to begin by asking you to briefly describe your educational background.

A: I took my baccalaureate in Iceland, and then I went to Sweden for university studies. At that time, most Icelandic students went abroad for graduate school. I started in chemical engineering in the Royal Technical School in Stockholm but that didn't fit me, so I shifted over and took my Master's in Social Sciences in 1944 and then continued further studies for about a year until 1945.

Q: And you completed your degrees at--

A: At the University of Stockholm. I never had time for further graduate studies after that. I had planned to go to England. I received a scholarship in 1946, but about the same time, the Icelandic Government engaged me to work with some other economists on an important economic report. When I came to the World Bank I felt that I really didn't have enough

education because I had never gone farther than taking this master's degree. That made me a little bit apprehensive, but I learned very quickly in the Bank. In fact, the Bank was the best school I had ever attended.

Q: How did you come to the Bank?

A: One of the economists in the Economic Department of the Bank was ___ Harrison Clarke, an American. Soon after he started with the Bank, his services were lent to the Marshall Plan. He was sent to Iceland, where I met him when I was preparing economic indicators for the Icelandic Government. That was my introduction to the Bank.

There was also an Icelandic economist working with the International Monetary Fund named Benjamin Ericson. He had a Ph.D. from Harvard, and worked with Bernstein in the IMF. We met in Iceland in 1949 he gave me an introduction to the Bank. It wasn't all that difficult to get into the Bank at that time if you had a reasonable background.

Q: The Bank obviously has changed markedly between then and now. As someone who served in the Bank early and late in his career, you have a unique perspective on things. How would you describe the Bank in the early 1950s?

A: We were just beginning our work on developing countries at that time. My first job in the Bank was to work with Professor Frank Fetter from Northwestern University on a study of

development banks around the world. Nobody knew anything about development banks. Our product was not good, but it was not an easy subject to address at that time.

My first important job with the Bank was a mission to Mexico in early 1951. Mexico wanted to apply for a number of loans totalling \$100 million. The Bank felt that this figure was exorbitant. It didn't think that Mexico was credit-worthy enough. A working party, the Joint Mexican Working Party, was formed to find out whether Mexico was credit-worthy for \$100 million. The group was be comprised of two Mexicans and two from the Bank. Albert Waterstone was the senior, and I was his assistant. We worked for more than a year on this project, and published a book called The Economic Development of Mexico. We found out that Mexico had had a very substantial rate of growth during the 1940s. Moreover, that this had been achieved with very low investment. Their capital/output ratio was extremely favorable. Our report went on to warn the Mexicans not to count on such favorable conditions in the future. We told them that the fortuitous blend of circumstances that produced this high rate of growth with low investment was not likely to re-emerge. They had to pay closer attention to the composition of their investment and their savings rate, as well as other factors.

After we finished the report, I moved over to the Western

Hemisphere Department and was the general economist for Mexico for over 5 years. I soon began to feel that the Bank did not understand the Mexicans as well as it should. The differences between the Bank and Mexico were largely ideological. Mexico was in fact a kind of Social Democratic country. For me this was nothing strange at all, but in the 1950s, especially after the election of Eisenhower, there was a strong tendency to emphasize private sector development. Markets, private sector, and capitalism were the watch words of the era, but that did not suit the Mexicans too well. They thought they were doing quite as well anyhow. They had a mixed economy; their industry was basically private; they had an active public development bank, the Nacional Financiera; their oil industry had been nationalized. Their mines were still private but heavily taxed; and the public utilities and the railroads were all state-owned.

Mexico's mixed economy functioned quite well, yet there were people in the Bank who said, "Well, this is a kind of socialism. It's not too good. Why don't the Mexicans start privatizing their power system?" In 1955, they got an Englishman to make a big study of the power system in Mexico with the aim of getting the Mexicans to begin to privatize it.

Q: Who commissioned this study?

A: I think the initiative came from Technical Operations

Department of the Bank. My boss in the Western Hemisphere Department, Federico Consolo, participated in the project, but I don't think his heart was very much in it. The Mexicans agreed to the study because they knew that they were not bound to adopt its recommendations. During my time at the Bank, they had assembled scores of reports on their shelves that they did not pay much attention to.

Nicholas Kaldor's report on the Mexican taxation system met the same fate later on as the Englishman's power study. The Mexicans agreed to give Kaldor access to the necessary data. They ,reportedly, locked him into a room in the Ministry of Finance and let him work there for a couple of months. After Kaldor finished the report, recommending major tax increases, the Mexicans said "Thank you very much, Mr. Kaldor," and that was the end of that.

I think that the Bank lacked patience in its dealings with Mexico. I remember an engineer from Technical Operations who once said after a meeting with Mexico's Minister of Finance, "Oh, when are the Mexicans going to forget about their Revolution!" I felt that this was stupid. The Mexicans were not likely to forget about the Revolution in the foreseeable future. They are doing it now, but it is 40 years later, mind you. Now they are discussing the privatization of parts--only parts--of the power system. All things have their time and

place, and the time for the transformation of Mexico's economic system certainly was not in the '50s. Nevertheless, the Technical Operations Department was insisting that the Mexicans shifted demarcation lines between the public and private sector, and this made relations with Mexico difficult.

In 1957, I headed a mission to study their investment program. One of the objectives was to look closely at road construction. I was enthusiastic about the prospects of highway projects in Mexico because I thought that the Mexicans had done a good job on their transportation projects up to this point and they very much needed more roads. Unfortunately, the transportation economist from Technical Operations had to drop out of the mission at the last minute, and I had to take on his work. When we came back to headquarters, the Technical Operations Department, not having had a man on the mission, and not considering me to know anything about roads, stonewalled my proposals. This upset me. I felt that I had learned a lot about roads from my colleagues on other missions, engineers and from transportation economists. I also knew that the Mexicans were building roads at approximately half the cost that they were being built in Central America, with all of TOD's paraphernalia--the foreign consultants, international bidding and foreign contractors. The Mexicans, on the other hand, used a local bidding system. Thank's to TOD's tactics, the Bank did

not start financing roads in Mexico until about five years later. This episode highlighted the Bank's (specifically TOD's) lack of flexibility, and lack of understanding of local conditions. Time and again, their ignorance thwarted the Area Departments' attempts to get the Bank's programs right.

Q: Would you attribute this to particular people in the Department, or did this have more to do with the conservatism of Mr. Black and Garner?

A: Black and Garner's conservatism had a lot to do with this. It acted as an umbrella which shielded this kind of attitude. There was a basic conservatism which, I believe, was to an extent justified at the time. Mr. Black had to get the Bank's bonds accepted all over the United States and he needed to show a financially strong and conservative institution. I think that was well understood by everybody in the Bank. However, as the 50's progressed, I increasingly felt that the Bank was unnecessarily prevented from expanding into other fields. Of course, we had our explanations. We presented it as a division of labor on development projects. Helping countries with transportation and infrastructure, would free up resources that could be used on the social side. The LDC's had little choice but to accept that argumentation. Nevertheless, many felt that the Bank was limiting itself to projects that made money, or had direct economic consequences.

Q: You alluded to some of these things in that Colloquium from July of 1991.

A: That's right.

Q: You also talked about the lack of dynamism in the Bank.

A: That's right. The Bank had not expanded very much from the early '50s to the late '50s. There was an enormous difference when I came back eight years later, in 1965, and attended a staff meeting in the Western Hemisphere Department. The organization was the same, but attendance at the meeting had nearly tripled since my time there in the 1950's. However from 1952 to 1958, I don't think that there was much of an expansion.

Q: Aside from this issue, you also talked about something that's very similar to a lack of dynamism, complacency. You also talked about the conflicts among loan officers, accountants and technicians.

A: On missions, I thought that the cooperation between engineers and economists, between general economists and specialized economists was fine. I learned a lot from them, and I think they learned something from me. The difficulties began when you came back. You might have come to an agreement with the transportation economist or whatever, on the mission, but when he came back and had to convince his colleagues at the Technical Operations Department, the trouble started. The

Bank's work in Peru in 1953 provides a good example of this. Peru was really outside of my area, but the Frenchman who was supposed to go there had been sent away to Turkey to help Pieter Lieftinck, who was the Bank's resident representative, and I was sent in his place. We were there for five weeks or so, examining a number of projects. The most important was an irrigation project called, at that time, Quiroz Piura. The man who was doing the work on that was an a Dutch agricultural economist called Douwe graenfeldt. At that time there was no real way to appraise a project. There were no standards. They were looking at things like the balance of payments effects, the increase of employment, and a number of things like that. Douwe had difficulties with this. We both felt that these measurements were not meaningful enough because they didn't show what kind of economic return could be expected from the project. Looking to address this shortcoming, Douwe and I sat down and calculated an economic rate of return for the irrigation project. In our calculations we used shadow prices an unfamiliar concept at that time in the Bank. We came out with an economic rate of return of 13 percent. This was a conservative estimate, of course. We gave the benefit of the doubt to the pessimistic side. In our view, the rate of return would be at least 13 percent.

I was rather proud of this work because I felt it was

something that, to my knowledge, had not been done before, in the Bank. However, after we returned to headquarters, Douwe had to get our estimates through the Technical Operations Department, and that didn't go very well. He called for my assistance, and we had a discussion with Milton Cross, who was the Head of the Technical Operations Department. I thought that I could convince Milton Cross, who came from Wall Street. After all, on Wall Street a man understands rate of return figures, and a return on capital of 13 percent was not bad at all. Unfortunately, our discussions were fruitless. The report was revised and filled up with the usual nonsense about balance of payments effects, employment effects and so on.

Q: Why was the Technical Operations Department in your opinion so resistant to these methods? They seemed to have backgrounds similar to the people on your missions. They are all technicians and economists.

A: The top people were not economists. They were either financial people or engineering people, and things like economic rates of returns were new to them.

Q: You must have experienced the '52 reorganization. Can you talk about that for a minute?

A: I think the economists welcomed the reorganization as a relief and an opportunity. The old organization had separated the loan officers and the economists, and the reorganization

brought them together. The loan officers were people with all sorts of backgrounds. My future boss Federico Consolo, was a loan officer, who was a chemical engineer by training. For the most part, they were lawyers or investment banking people, and they didn't know too much economics. Nevertheless, they were considered to be the core of the Bank and the most important of the staff as they were responsible for the projects.

Putting the economists together with the loan officers helped the economists greatly. Eventually, I think it might be said that they took over the entire organization. Working as a part of an Area Department was greatly preferable to working in a separate department where you never knew whether anybody was listening to you or not. Now all of us belonged to the same department, and I think we worked very well together. After the reorganization, the differences between the loan officers and the economists disappeared in a short time.

Q: So you thought this was a very positive step?

A: That was my impression at that time.

Q: I was under the impression that the economists lost some authority in the reorganization because the Economics Department no longer had a veto.

A: That's correct. I'll tell you more about that. Perhaps the most prominent Bank economist at that time was Rosenstein Rodan. He had an impeccable reputation. He was quite

influential when we were writing the report on Mexico. He left the Bank after the reorganization because he thought that his influence, in particular, and the influence of economists in general would be greatly diminished. I heard that he told a story about taking a native out of the African jungle and bringing him to the civilized world. According to Rodan, you could dress him up as a gentleman, teach him the language, and he would behave beautifully. Nobody could see the difference between him and other people. But put him back into the jungle, and he will revert to his original state in no time at all. The story implied that Black was the native who had been brought out of the jungle of Wall Street. He had been educated by economists like Rosenstein Rodan, and had become a great gentleman, but after the Republicans took over the U.S. under Eisenhower, Mr. Black would revert to the jungle state in a very short time.

Q: What else did you think of Black?

A: I was very impressed by Black. I had great respect for him, and also for Mr. Garner. However, Black was a little remote. In effect, he was the Bank's External Affairs President. He was the one who sold the bonds. He was the one representing the Bank before Congress. He was the one travelling around the world. Garner actually ran the Bank. I think people realized that Black performed a critical function

at the Bank, yet, by 1957 he was becoming increasingly isolated from the rank and file. There was a layer of people right under him that really separated him from the staff. By that time, I believe he didn't really know what was going on below him. This situation resulted in a lack of dynamism. Things didn't change until after he left.

Q: Why did you decide to leave in 1957?

A: I wanted to work for my own country. It was not an easy decision to make. The Bank had taught me a great deal. It had been an extremely good school. I had learned more in those seven years than I had ever learned since I was five. I knew that the learning curve had to level off eventually, and there were opportunities opening up in Iceland that had not been there before. Furthermore, there was also a feeling of stagnation in the Bank. I had been working on Mexico for five years and I was beginning to feel frustrated. I was getting to be considered an expert on Mexico, or worse, a great friend of Mexico. I proudly plead guilty to both "crimes,". However this kind of status can create problems. Many in the organization will say: "Don't listen to him, he is biased." I knew I couldn't continue to work on Mexico. It was time to move on.

Q: So what did you do when you went back to Iceland?

A: I became the Economic Advisor to the Government, and later

on the Secretary General, that is the highest official, of the Ministry of Commerce. After that, I continued as Economic Advisor, and then a few years later became director of an economic institute and continued as an Economic Advisor for a total of twelve years, from 1957 to '69. During this period, I carefully kept my contacts with the bank, so as to be able to return if need be. This strengthened my position with the Icelandic Government and furthered the important economic reforms which were being implemented. I took on temporary consultant work for the Bank in both 1963 and 1965. Twice I was on the verge of returning. The first time was in 1964 when Gerry Altes offered me the position of Economic Adviser in the Western Hemisphere Department, a position I had never thought I could reach when I was with the Bank. I agreed to take it for two years, which was not in line with Bank policy. When Gerry called me again a few days later and said I could come anyhow, I had already told the Icelandic Prime Minister, to whom I had become very close at that time, that I would not leave, and I could not bring myself to go back on my word. The second time was in 1969 when I felt my usefulness as Economic Adviser had come to an end, and the Bank offered me to become its representative in Venezuela. But just then the position of Managing Director of the National Bank of Iceland, the largest, state-owned, commercial bank in the country, became vacant, and

the Prime Minister urged me to accept it. After that my relations with the World Bank decreased because I became totally immersed in NBI issues. In my previous positions, I had been able to take some short assignments for the Bank, but now that was out of the question. I just didn't have the time. I stayed at NBI for eighteen years, until '88, when I became a Member of the World Bank Board.

Q: What did you hope to accomplish in returning to the Bank in 1988?

A: I was somewhat concerned about my constituency's tendency to push their Social Democratic ideas to the exclusion of such factors as markets and the private enterprise. I was afraid that the Nordics would want social projects to go forward without regard for sound economic principles, and I was concerned about the ongoing adjustment process. I knew that some of my predecessors had felt this squeeze, including an Icelander who was here in the late '70s. To my relief, however, the world was changing fast and the Nordics were changing, too. My constituency quickly began to appreciate the importance of markets, so I was able to avoid most of the anxieties of my predecessors. I felt quite comfortable, most of the time and felt I was participating in important undertakings.

Q: Can you talk a little bit about how the Nordic countries

are organizing this office? How did they go about the selection of their Executive Directors, for instance?

A: There is an agreement about the rotation that goes back to the '50s. Originally, there was rotation every two years. That was later changed into three because Alternates tended to become Directors, and Directors stayed on as Alternates after their terms. All the countries had the same rights. Of course, the populations are quite different, with the Swedes by far the most numerous, and this arrangement greatly benefits Iceland. When its turn comes, each country is free to select the Nordic representative. However, the others countries have to ratify the choice, and there have sometimes been difficulties on that score. I don't know of a case where a choice has been refused, but everybody is aware of the possibility and that makes people careful. I must say that I think the Icelanders have consistently selected good people.

There were five positions in the office, one Director, one Alternate, one Advisor, and two Assistants. That made it possible for every country to have one person in the office. Now, as the Baltics have joined our constituency, there is one more position in the office for a Baltic.

Furthermore, and this is important, views are coordinated among the countries. The home country of the Executive Director arranges telephone meetings of all the countries which

determine what position the ED should take on each issue or project, that comes before the Board. This is a great help because it means that the Director doesn't have to be in contact with all five of them. He keeps contact with his home country which relays to him the decisions of the government officials who are responsible for determining the Nordic position.

Let me try to describe how this arrangement works in practice. When a project or a report comes up for Board consideration, our ED's office will send copies of the report to all the countries and write a short summary of the report's main highlights, and make proposals for a position to take, things to bring up, things to oppose, and things to support. Eventually, we will get a reply. This process has to be timed carefully, so that the countries have time to consult with each other before the final Board vote. In the case of country projects, the coordinating ministries often like to consult with representatives in the field, if they have any, like, for example, Nordic missions in the African countries. After a while we get the instructions from the home country about the position to take, and we follow those instructions in general terms. There is space for maneuver, however. The instructions are more like guidelines that sketch out goals to strive for. How I accomplished those objectives was largely left to me.

Q: Weren't there conflicts? These are very different countries.

A: Yes, at times, but, generally, differences of opinion were smoothed over before the decisions came down to us. There were especially problems between the Norwegians and the Swedes, especially the Swedish Ministry of Finance--there are two Ministries involved in this in the case of Sweden, the Foreign Ministry and the Ministry of Finance. The Swedes were generally more conservative and market-oriented, while the Norwegians tended to emphasize the social side to a larger extent. However, for the most part, I didn't have to be concerned with these conflicts. When the instructions came I could see how the differences had been worked out. Only in the case of Chile did we ever have to report different views on a particular vote. That was because Norway, Denmark and Sweden could not approve loans to the Pinochet regime. Finland and Iceland disagreed.

Q: Outside the Nordic office, who among the other EDs did you work most closely with in the time that you were there?

A: I would name Frank Potter first. He was partly because he was one of the senior Board members and one of the best acquainted with Board management relations. I worked with him closely on the Budget Committee. I learned a lot from him. We kept in close contact all the time, even though we were

sometimes on opposite sides of an issue. Canada, by that time, was following the U.S. rather closely. Potter had much to do with getting budget procedures instituted, including the Colloquium discussions, and to have the issue of Board procedures taken up.

I also had very good relations with Gerhard Boehmer. He and I were usually thinking very much alike. The German and the Nordic positions were very similar, as are the German and Nordic Welfare States. But, I also had good relations with Pat Coady. Keating, who was the U.S. Director before him, was not a strong man on the Board. He didn't come from the Treasury, and was really not speaking with much authority. That changed when Pat Coady came. Although we became antagonists on the private sector issue, we were close on many other issues. In the case of IFC projects and policies, I frequently came to his support. I also developed very good connections with some of the directors from the developing countries, especially the African representatives, _____, _____ and Le Boudier, with whom I travelled in Africa and Asia.

Q: You mentioned the similarities in views between you and the German representative, but hasn't Social Democracy come under some question in Scandinavia? How has that affected some of the dynamics within the Board? Has there been a change in attitudes?

A: There is no question that the views of the Nordic governments have changed substantially in recent years, partly because of what has been happening in the world as a whole, and partly because of political changes within the Nordic countries themselves. The Danes had a conservative minority government during my time at the Board, but the economically most conservative views were frequently represented by the Swedish Ministry of Finance under a Social Democratic government. So positions do not necessarily closely follow political labels. And as far as Germany is concerned, I hardly believe there is all that much difference between the Social Democrats and the Christian Democrats on welfare issues. But the welfare states, where Social Democrats have been most prominent, are certainly in a crisis, which it will take a long time to sort out.

Q: Has that changed their attitudes towards development issues?

A: Their attitude towards adjustment has changed markedly. I think that when the adjustment problem first came up, there was a great deal of animosity in the Scandinavian countries. I don't think that they understood the adjustment process very well. They thought it was cruel and unnecessary. There are still of course people who believe that, but the prevailing attitude of both governments and officials, since some time back, is that adjustment was unavoidable. They emphasize that

the social aspects of adjustment should not be ignored, as there had been a tendency to do in the beginning. We supported social funds that were established for Bolivia, Ghana, and other countries, as well as the maintenance and, if possible, increases in general expenditures on health and education.

In addition to the social issues, the Nordics took a keen interest in the environment. We had meetings with people from all over the Bank so that we could gain a sense of how environmental ideas were trickling through the organization. We found that many country economists talked like environmentalists. I believe that the Bank has adopted sound environmental values, and that the member countries are very supportive of this process. The Norwegians were especially helpful. They established a special environmental consultant fund, and assigned a number of experts to the Bank's environmental projects.

Q: How would you compare Presidents Conable and Black?

A: Black was a dictator. There was no question about that. I remember one case involving Iceland. The Government had applied for a loan to build a cement factory, and it was going to be a government-owned enterprise. It had been studied and approved by everybody. In the Loan Committee, Mr. Black asked around the table, and everybody, including Mr. Garner, was in favor of it. Then Mr. Black said, "I'm sorry, Gentlemen, but

I have to say No," And that was it. The Board, of course, had nothing to say in the matter. The reason why Black said no was simply that he feared setting a bad precedent. He didn't want to encourage the funding of state-owned enterprises. He didn't want all the Latin American countries to come along with state-owned cement plants and refer to a precedent in Iceland.

Conable, on the other hand, was a parliamentarian, and he ran the Bank as a parliamentarian. I think he did it quite well. I liked Conable and liked the way he did business. I think he could have been more decisive and forceful at times, but he was very patient and went to great lengths to achieve consensus. He had a lot of informal meetings with the Executive Directors. He was nothing like a dictator.

Q: One of the popular criticisms of the Bank is that it has too many goals. Does a parliamentarian and a consensus-builder like Conable bear some responsibility for this proliferation?

A: Yes. I think that Conable tried to achieve a balance among a great variety of objectives. I think this goes back to the pressures coming from the donor countries who are pushing for a wide array of objectives like the environment, women in development, democracy and good governance. We had discussions in the Colloquiums about this, and everybody agreed that there were too many goals and that we should cut some out, but nobody would suggest which goals should be cut. I think it is

impossible to cut anything out, by a decision, but there will be a sorting out by evolution.

Q: Even with individual projects, people would say, "What is there for women in development? What is there for the environment?"

A: This was a big issue for Conable. He raised that question in the first Colloquium. As for me, I felt that we shouldn't try to do everything in every project. I felt that the Country Director should be the man responsible for serving to balance the various goals in each country. This could mean substantial variations among projects and countries.

Q: Were you in the Board still when the Narmada problem came to a boil and when the outside commission was established?

A: Yes.

Q: What did you think about this approach?

A: We supported it. Narmada was a problem from the beginning of my time on the Board. It was such a complicated issue, I didn't have time to become intimately familiar with all the angles, so I relied heavily on my Norwegian Alternative, Mrs. Maehlum and my Danish assistant, Mr. Petersen, in these matters. Everybody had a different story to tell, and you didn't know whom to believe. This applied in particular to Narmada, and the Brazilian rainforests.

Q: As I mentioned, we want to turn to the ad hoc committee on

Board procedures that you chaired. What kinds of problems within the working of the Board prompted the creation of the committee?

A: We had a strong feeling that the Board was not doing what it was supposed to do. We realized that the role of the Board would have to be a policy role, and that meant policy both with regard to general Bank policy (women in development, housing, etc.) and also country policy (or country strategy as it is called in the Bank). These were the things that the Board, according to the Articles, should be concerned with. Furthermore the projects were just too complex for the Board as such to make a meaningful contribution. Unless something was terribly wrong, project discussions were best carried out, not in the Boardroom, but directly with the staff. As ED, I had few opportunities to evaluate individual projects thoroughly. The exceptions were mainly tr_____ where we could get input back from the field. For example, if there was a Kenyan agricultural project and the Danes had an agricultural group in Kenya, we might have something to say. But we didn't have to discuss it in the Board. Time would be better spent if we could speak directly to the people who were working on the project.

Most of the Board members felt that radical changes in the Board procedures were necessary. General policy issues had of

course come to the Board, but usually at too late a stage for the Board to have much impact. We were prepared that the Board would receive policy proposals at a relatively early stage, when people were still thinking about alternatives. The proposals should come to the Board in two or possibly three stages. The final stage would then not need to be much more than a formal approval.

Then came the country strategies. The borrowing countries resisted Board involvement in these matters. They said that these issues should be left to Management and the Governments. The industrial countries did not think so. We thought that it should be a Board matter. This idea gradually gained acceptance. It was accepted in IDA, which broke the opposition of the Indians and the Chinese in particular. In return, we conceded that a part of the country strategy discussion should be the external environment of the country in question. In other words, a discussion on Ghana should, for instance, address the fact that Ghana had to face limitations in textile exports imposed by the industrial countries. We had some difficulties with this, however, because this kind of things are usually not very country-particular, and they don't change very much in the short run. Management worried that they would have to repeat and repeat and repeat time and again the same things about the terrible textile agreement, or the terrible

trade barriers for agricultural goods and so on. Ways could, of course, be found to avoid this while including external factors as an integral part of the country strategy discussion was absolutely necessary for the Part II countries.

Q: Were you satisfied with the resulting proposals ?

A: I was very satisfied with the final report and grateful for the work done by Moises Naim, who took over from me as Chairman, and the other remaining members of the committee. I didn't think that the report was in essence much different from the draft we had prepared before we left, but it was more refined and elaborated and it proved possible to achieve a sufficient consensus.

Q: You left before the committee officially issued the final report?

A: Yes. I left at the end of July, 1991. The Board approved the report in August of 1992.

Q: Did your constituents support this work?

A: There was strong support of it from countries like Canada, the U.K., and Germany. As for the Nordic countries, they were a little bit apprehensive in the beginning, because they wanted to preserve their very good relations with the Part II countries. They worried that we were getting a little bit too deeply in with the Canadians, the British and the U.S.

The U.S. was basically in favor of this, but they had some

concerns. I had private meetings with Coady and he was definitely in favor of it, but he had to secure the backing of the Treasury and that took some time. Essentially, Treasury was concerned about two things. One was that the projects would not be looked at carefully enough. This was not a rational concern. They can look at them as carefully as they want, but they just have to do it outside of the Boardroom. If they discover that something is terribly wrong, then they can bring it to the Board, but that would not happen very often. Secondly, Treasury was also concerned about the Policy Framework Papers. They were the brainchild of Mr. Dallara, and I think served a useful purpose in the beginning. They were a form of country strategy discussion, and they had to be incorporated into the process. The report said that the PFPs would not be discussed alone. Instead, they would be discussed together with the country strategy discussion, if possible. If they came just after a country strategy discussion they would not be discussed. If they came just before one, they would be postponed until the country strategy discussion began. The report undeniably degraded the PFP process, and the Treasury didn't like that in the beginning.

Q: Could you give us sort of a thumbnail sketch of how you see the Bank as an organization? Do you think the Bank is structurally sound? Are there any basic flaws that impair its

effectiveness?

A: The Nordic countries feel that the Bank needs to do more to enhance the quality of its projects. We frequently emphasized the need to put more resources into project supervision and evaluation. As ED, I recommended that the OED should get more resources for special studies. My position differed markedly from that of the US, the UK and Canada who opposed any form of a budget increase. We wanted to be frugal and prudent but not to the extent that evaluation and supervision suffered.

I think that the reorganization in '87 was basically healthy. I think it was basically the same thing as happened in 1952. The 1952 reorganization put the economists into the Area Departments. The '87 reorganization put the technicians into the Country Departments. The '87 reorganization caused some problems because it made it more difficult to attain a high level of technical performance everywhere in the Bank. Nevertheless, I feel that it was the right thing to do. In a multilateral aid organization, it is essential that the Country Departments are the core units.

Now, with regard to the staff, it is possible that the Bank is overpaying them and that it is too attractive a working place, resulting in low turnover. The Young Professional program is useful in bringing in highly capable people and

educating them. However, this strategy has its side effects. And so there has to be a balance. I think the Bank should emphasize to be more open for outside influences. I agree very much with Moises Naim about getting more influence from the borrowing countries. I also think that it might be a good thing to have an arrangement with both borrowing and donor countries so that staff could work with the Bank for 4 or 5 years and then at the end of that time continue with their careers in their home countries, without losing seniority.

Q: Well, what about the private sector? There is basically a conflict here. The Bank is an organization that is run and supported by governments, yet here we are suddenly charged with the task of encouraging private sector growth. How do we do it?

A: I think the Bank has a key role to play in helping to redefine the relationship between the public and the private sectors. This is a major problem in many developing countries, especially in Eastern Europe, and also in Africa. In particular, the Bank can provide valuable advice and technical assistance to help countries adapt to the shift toward a more important role for the private sector. The big row over the IFC capital increase wasn't about this, but rather about the Bank's direct involvement with private sector organizations and very much about the balance among the Bank's many objectives.

I was Pat Coady's opponent on these issues. I represented a European group. It was probably the first time that all the Europeans had come together. Even the British, who had a tendency to support the U.S., joined in. Potter was not in this group. Neither were the Japanese, who were kind of neutral. I talked with Shiratori later on and learned that he had in reality had a very similar opinion as the Europeans. Canada supported the U.S., but in a rather lukewarm way. We (the European Group) were concerned about the possible disruption of the balance between the Bank's many goals. We were worried that all of a sudden a flag would be hoisted that said, Private Sector, Private Sector, and that the Bank staff would begin to ignore other considerations.

I believe now that these fears were greatly exaggerated. But the U.S.'s proposals generated anxiety. The Treasury, Mr. Mulford in particular, were attempting to call the tune and they wanted fifty percent of Bank loans to go to the private sector, which was totally unrealistic. They also wanted a special department for private sector development. We didn't want that either. We believed that the private sector goal should be integrated into other aspects of Bank operations. Everybody should keep the private sector in mind just as everybody should keep the environment in mind.

Six months later, making a study for the Norwegian

government and talking to people within the Bank, I didn't find much reason to believe that the Bank's policy balance had been disturbed. Coady and I have later talked about this issue, and we agreed that there were gross exaggerations on both sides. Interestingly enough, a special private sector department has now been established, and I think that it was a good thing. I'm glad that it was not created in '91, however, because I think that in '91 it would have been disruptive. Doing it a year and a half after this big discussion was much better, especially since at the same time two other departments, for the environment and for human resources development were also established.

Q: Well, thank you very much.

Q: Thank you.