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ORAL HISTORY PROGRAM

Transcript of an interview with

JOHANNES F. LINN

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Interview by: William H. Becker

[Begin Tape 1, Side A]

BECKER: Good morning. It is April 6th, 2004 and we're at the Brookings Institution. This is William Becker with the Business History Group and the George Washington University. And I'm here this morning to interview Johannes Linn, formerly of the World Bank and currently at the Brookings Institution. Good morning, Mr. Linn, it's a pleasure to see you.

LINN: Good morning. It's a pleasure to see you.

BECKER: I'd like to begin by asking a few questions about your background. When and where were you born?

LINN: I was born on October 22, 1945 in a small village called Unterschondorf in Bavaria, which is about 20 miles southwest of Munich in Germany.

BECKER: And may I ask who your parents were?

LINN: My parents were Fritz and Friedel Linn. My father was then a teacher at a boarding school in Unterschondorf. My mother was working with him, supporting him. He became later the headmaster of the boarding school and retired in 1964.

BECKER: Okay.

LINN: No, sorry, 1968.

BECKER: Do you have siblings, and if so, how many?

LINN: I have three older sisters. They all live in Germany.

BECKER: Where were you educated?

LINN: I was educated in a village elementary school for four years, then for nine years in the boarding school, which in Germany is referred to as a high school, *gymnasium*. I passed my school leaving exam in 1964. I then spent a year at the Freie Universität in Berlin, studying law. In 1965 I received a scholarship to go to Oxford University, Robert Birley Fellowship, where I studied philosophy, politics and economics, and received my bachelor's degree in 1968. I then went on to Cornell University in Ithaca, New York in the United States to study for a doctorate in economics. I received my doctorate in July 1972. I then spent three months back in Germany on vacation, and joined the World Bank January 2, 1973.

BECKER: You remembered the exact date.

LINN: Well, January 2 I will always remember because I thought my job started January 1, but then, in fact, formally it started January 2. So when I received my first paycheck, I was paid one day less than the full month.

BECKER: And you remember that.

LINN: World Bank precision.

BECKER: You obviously received a very prestigious fellowship to Oxford. Were there other reasons for you to study in an English-speaking environment both for undergraduate and graduate?

LINN: Well, my high school had exchange programs with English high schools and when I was fifteen I spent one spring term at a British school, a British boarding school called Radley, which is south of Oxford. And I learned to speak English quite well then and remained very interested, subsequently, in English. I did a lot of theatre in high school, English language theatre in particular. And so, when, during my first—my one year—at Berlin, I'd heard about this possibility of applying for a scholarship in England, I decided this was a good opportunity. So I applied, and was fortunate to receive the scholarship to go to England.

BECKER: And what prompted your decision to take a doctorate in the United States, at Cornell?

LINN: A combination of factors. First of all, during my last year at Oxford, I got very interested in Economics and particularly development economics because I had a very good professor, Gavin McCrone. He got me very interested in this topic. I therefore decided I wanted to go on with economics.

In those days, German universities were in a big upheaval, with student activism, revolutionary activities, quasi-revolutionary activities. This was during the days of the Vietnam War, early days of the Vietnam War. So I decided that I wouldn't want to go back to a German university, where I also would have had to start from scratch because, as an undergraduate, my BA from England would not have been recognized. Instead, I decided to go to the United States, where in any case, graduate education in economics was much more advanced, modern and internationally recognized as of a high standard.

BECKER: What was the topic of your doctoral dissertation?

LINN: The topic of my doctoral dissertation was rather theoretical. It involved building a model and simulating the model of international financial developments based in macro-economic and international financial policy adjustments, which was quite abstract and really quite removed from reality, I have to say. But it provided a good basis for my macro-economic training, which I then used later on when I worked as an economist for the World Bank.

BECKER: What prompted your interest in the World Bank?

LINN: Well, that's an interesting question because it was almost accidental. When I was in my last year at Cornell, I was asked to teach an undergraduate course in the fall and an undergraduate, mid-level undergraduate course in the spring in economics as a lecturer. And since my own interest was actually very much in teaching and research at the time, I started looking around for teaching or research jobs. I interviewed in the United Stated in a number of schools for assistant professorships but also applied for a post doctoral fellowship in Germany, with a view of going back there, particularly to work with a very well known German economist, Egon Sohmen, who had actually been the father of a floating exchange rate regime.

Now, in the sense of a safety valve, I also responded—too late as it turned out—to a notification that came across my desk, or maybe I saw it on the bulletin board at the university at Cornell, an advertisement for the Young Professionals Program [YP] at the World Bank. So I thought, "Well, why not apply to the World Bank?" I knew very little about the World Bank in those days. It was, to me, a very distant institution that did work in developing countries. So I sent in an application without really paying too much attention. Then, as it happened, before receiving any other notifications from any other employers, I received an invitation to come for an interview, and after the interview received an invitation to join the World Bank. Since nothing else had come through at that point, I said to myself, "Well, why not? For a year or two maybe, I will join the World Bank and see how it goes and then take it from there." Also, the salary looked quite attractive compared to university salaries or post-doctoral fellowships. My wife also was quite happy with America and was quite happy to stay in the United States for a while, I think. So we decided that was the way to go. But it was really a black box that I was going into, and I knew very little about the World Bank in those days.

BECKER: What did the YP Program entail when you joined it in 1973?

LINN: Well, in many ways it was similar to today, at least I believe similar to today. It entailed two six-month assignments, after which one then moved into a regular assignment. The first assignment was given to one without any choice. As it happened, in my case, I joined a research group in what was then called the Development Economics Department. I joined a group that worked on urban research, which I knew very little about. Maybe we can come back to that.

And in the second assignment, then you had a choice. You could be entrepreneurial and look around and see what would be appropriate. In my case, I decided I wanted work on Africa and in an operational assignment. As it turned out, I ended up working with the chief economist for one of the then two Africa Regional units. Unfortunately, I was never sent out to Africa. I ended up doing, in effect, more research on a new approach towards cost-benefit analysis and shadow pricing, which was quite useful. But with the benefit of hindsight, I actually regret not having had a true operational assignment while a Young Professional. The lesson I learned from that was to insist in subsequent years, whenever I worked with Young Professionals that came to my unit, that they actually go out and really experience head on the operational work, and the

countries in which the World Bank works. So there was a lesson to be learned, which was useful, but I think I missed in some ways, unfortunately, an opportunity in those days.

BECKER: Okay.

LINN: So let me just say, ironically, I returned from my YP assignments to the research group and then spent, I think, close to eight years in the research group without ever setting foot in an operational assignment in the World Bank. So I spent almost nine years in the World Bank without doing any operational work, which is in many ways ironic and not ideal. I wish I had done some operational work early on.

BECKER: Did you develop lasting friendships or, and/or career-long relationships through the YP program?

LINN: Some, but actually not that many. As I recall now, there were probably two or three people, most of them have now retired. One of them happens to be an alumnus from my Oxford college, with whom I am still in touch today. Michael [J.] Gillette was in those days the program administrator for the operational program of the West African Regional Vice Presidency.

Probably the person most influential and most significant for me in my early years was my first division chief, Douglas [H.] Keare, of the urban division [Urban & Regional Economics Division] where I first worked. He was a very, very open and excellent manager who gave his staff a lot of freedom. He took me on for my permanent assignment immediately after my YP position. I'm still in touch with him and he's been a good friend and very helpful over the years.

There's also a number of consultants, experts in urban development issues, whom I started working with in my first YP assignment. We continued in my regular assignment. I have remained in close touch. So, yes, in this part of my life, where starting, especially my first assignment, a number of friendships, professional and personal friendships, were formed which are still lasting. In my second assignment, which was in some ways less successful, I think fewer such contacts, unfortunately, were made, and few remain today.

BECKER: I wanted to talk about this first full assignment in the Bank in Urban Development.

LINN: Sure, yes.

BECKER: As you said, it was eight years, I guess.

LINN: It must have been January 1974 to April 1, 1981.

BECKER: You've mentioned this first assignment in Urban Development, but what were your responsibilities, or what was the nature of this first assignment?

LINN: It was a long term research endeavor on what we called urban public finance, basically the question how do you finance and financially support the development, the rapid growth of the cities in the developing world, especially, of course, infrastructure but also education, health and so on. We started off with a comprehensive research project involving eight or ten cities spread around the world, analyzing how they actually raised money and spent money from different sources. We analyzed both the efficiency and the equity and the revenue and also how, given different spending patterns in different cities, how the revenue-raising capacity and spending decisions were, in fact, related. In this context, we also looked at questions of the administrative aspects of urban government. In the course of this work, which lasted a number of years, we also focused special attention on water supply and sewerage service provision and financing.

All of this led to a number of research papers and a major World Bank publication, which, however, was only published much later because it took us a long time to complete the work. It was only published in 1992, almost 20 years after we started. It's a World Bank book published by Oxford University, *Urban Public Finance in Developing Countries*, which was published with my long term consultant, colleague, friend Roy Bahl from Georgia State University in Atlanta.

Looking back now I think I would be quite critical of my management for letting me go on for so long with this research study. Ironically, it turns out that the book that we finally published in 1992 even today is still one of the very few, maybe even the only comprehensive study on the subject. It was reprinted a number of times, and has been used extensively by the World Bank and the WBI, the World Bank Institute, in its courses. It was translated into Chinese and it's been used extensively to train Chinese city administrators. So it was, despite its long gestation, useful in the end, even though, from my personal perspective perhaps, it caused me a detour through a long term research assignment, rather than focus on the World Bank's mainstream operational work.

BECKER: So this, this in fact was the nature of your assignment for the time you were there?

LINN: Yes, for the entire time. But there were two interludes which were very important for my career. One was that in 1978, I was asked to join the *World Development Report* team that prepared the second *World Development Report*. Actually in a way it was the first real *World Development Report*, because the very first original *World Development Report* that was published in 1978 was in a sense, a prototype, which was then rolled out with the 1979 *World Development Report* that I participated in under the leadership of Shankar Acharya, who is now back in India and head of a research institute, I believe, there. Previously, he was for a long time also a senior official in the Ministry of Finance in India.

My responsibility was to write a chapter on urban development issues, quite broad. Not just urban finance, but urban development. I did so based on a background paper which I first prepared for about three or four months which was later published, in fact, as a book, a World Bank book, published by Oxford University Press, under my name, with the title *Cities in the*

Developing World: Policies for Their Equitable and Efficient Growth. And that, I think, gave me a lot of visibility within the institution, and I think was a major step in sort of putting me on my subsequent career path. It gave me recognition and exposure, rather than being stuck quote, in the research side, unquote. Looking back, I think this was important because I watched other colleagues of mine later, in a sense, getting stuck in the research side.

Now, another important thing that happened was very important to me personally, was that in my last year in the Urban Research Division, my division chief, Doug Keare, took a sabbatical year and I was asked to be acting division chief for the almost twelve months that he was absent. So I had an early exposure to management, which was very important because I learned a lot during that period. I realized that I actually quite enjoyed management and, maybe, also was quite good at it. So I think that was another important stepping stone. So, although my work wasn't operational, I did have a number of important assignments outside my immediate research obligations. This opened up, I think, a broader set of career opportunities, recognition, but also learning opportunities that were very, very useful for me.

BECKER: This is very good because I was going to get at this question of how you learned about management.

LINN: Well, in fact, it was instinct, as it actually began. I think, looking back, it's a useful lesson. I was invited—in a sense, ahead of my time because I was not a real, quote unquote, a real manager in those days—to attend one of the early management training seminars. They were two- or three-day courses in West Virginia, not as accomplished as some of the executive training programs later on devised. But they turned out to be very useful as a networking exercise because I got to know a lot of current managers, some very good ones, in this connection.

And there were elements to this particular management training course that I found a real eye-opener. For example, in the first evening, we were split in two groups and then asked to play some competitive game. It was fascinating how within minutes there was a clear pattern developed of "us versus them" between these two totally arbitrary groups. Most of the people didn't know each other going into the exercise, but within minutes you had two highly competitive groups who fought tooth and nail to be number one and, in the process, developed a quite—not lasting, but still very noticeable—"us, the good guys versus them, the bad guys" attitude. And I was just shocked by how quickly this particular attitude developed in me. It was a lesson that I never really forgot—that we always should strive to overcome our natural tendencies to fall into these competitive, or antagonistic patterns. So that was one interesting lesson from this particular early exposure to management training.

BECKER: That's also interesting because the group was obviously not made up entirely of Americans, where this whole notion of extreme competitiveness is perceived as being an American characteristic.

LINN: No, no, no, this is good international competitiveness and World Bank competitiveness, cultural uniformity at its best.

BECKER: You answered my question about what did you learn about yourself and/or about the Bank from this first experience. Unless there's anything else you wanted to, you know, to add.

LINN: Well, in many ways, I didn't learn enough about the Bank, which, however, in the long term, I guess didn't do me too much damage. But, looking back, I wish I'd learned more through simply participation in operational missions, which I never did, which was, I think, to me personally a loss made up later but still it was unfortunate. I didn't really know many parts of the Bank, much of what the Bank did, whether it was operations and finance or legal. So I was rather isolated in my ivory tower. I had contact particularly in what was then the central Urban Projects Department but more broadly I had very little contacts. And so, in a sense, I knew very little about the Bank as it operated on the ground.

BECKER: And you understood that you would need to learn more about operations?

LINN: I knew that, sooner or later, since I enjoyed the Bank. I enjoyed the atmosphere. I enjoyed the work. I enjoyed my understanding of the mission of the institution. I wanted to stay on, in fact explore the operational side. After eight years I was ready to move, because I realized I had done pretty much what I wanted to do on the research side.

I was fortunate that a colleague whom I hardly knew, Ed [Edwin R.] Lim, came to see me out of the blue. Ed was at that time the lead economist for the Thailand division [Country Programs Department, Division A] in East Asia. He since has retired, after having become a senior member of the World Bank's management team for many years. I was acting division chief of the Urban Research Division when Ed came to me and said "Hey, Johannes, you know, I'm leaving to go and work on the newly opened China program. Nick [Nicholas A.] Gibbs, the Thailand division chief is looking for somebody to replace me. I've heard about you. Would you like to come and join, become the lead economist, the senior economist for the Thailand division?" So I thought, hmmm, I hadn't worked on East, Southeast Asia. Thailand sounded exotic, it was very rural, a very agricultural and rural country. So I thought, "Well, it's great. In contrast to my urban work, I'll get out into the countryside. I'll learn something about agriculture and rural development that I didn't know much about." So I said "Great, why not?"

And so I moved over on April 1, 1981, which I remember very vividly. As I walked into my new division, everyone was huddling in the division chief's office because the news had just come from Bangkok that the so-called April Fool's Day coup had just occurred. Those were the days when Thailand coups happened just about every other year, or even every other half year and so nobody was greatly surprised, but it sticks in my mind.

More generally, though, while I deliberately moved to operations, the actual transition, the way it worked out, in some ways characterizes my career more generally, since I was offered this

opportunity almost accidentally and grabbed it and ran with it. And then I spent a number of years in East Asia, working on East Asia.

BECKER: I should say that we did a very interesting interview with Lim.

LINN: Ah, Ed Lim, Ed is a great guy.

BECKER: I wanted to ask you about some of the work that you were first assigned in Thailand. You mentioned in your farewell speech, I think, the structural adjustment lending work that you had done. Was that the first assignment you worked on, or were there other things?

LINN: No, that was indeed the first thing. In fact, it's a bit ironic, because I remember when structural adjustment loans were first introduced in the Bank, probably no more than a year before I moved to the operations. I don't think I was directly involved or wrote anything about it at the time, but I remember arguing with my colleagues and believing quite strongly that it was a mistake for the World Bank to get into structural adjustment lending because I felt--and I'm not making this up--I felt that it was going to deflect the Bank from its traditional work on the ground with projects and investment financing and get us into what was already then, I think, a notable controversial area, namely a close association with the IMF [International Monetary Fund], which was in those days also a controversial advisor and financier of countries in financial crisis. And I felt this was not a good place for the World Bank to be.

Now, it's a bit ironic because the first thing I then was asked to do, after moving to the Thailand division, was to work on the very first mission to prepare the first adjustment loan for Thailand, which was probably the third or fourth adjustment loan in the Bank's history. It was one of the early adjustment loans in the World Bank. There only had been, I think, one adjustment loan actually approved by the Board [of Executive Directors] when we started our work. I don't recall which country it was. I think somewhere in Africa. Another adjustment loan was under preparation for the Philippines in those days. But it was very early on and there was very little standard practice.

I remember the famous policy matrices that had to be prepared. They had been basically invented by Ernie [Ernest] Stern, who was then senior vice president for operations, but no one really knew how to prepare them or what was required. So, we struggled trying to understand what these matrices were. In addition, it was an interesting experience for me, because the first mission for the first adjustment loan to Thailand was led by the then senior economist for East Asia Programs Department, Will [Willem C. F.] Bussink, who was a very good economist. In fact, I learned a lot from him as a country economist. But in some ways, he was not the best of organizers and mission managers.

So when we got out in the field into Bangkok on what was my first operational mission, my first visit to Bangkok and Thailand, it very quickly became apparent that we had an organizational problem with our rather large team of people that we'd taken out there. I was sort of a deputy mission leader as senior economist for the Thailand operations and it became quickly clear that I

needed to be more active in working with Will Bussink to actually lead the mission. So I ended up being very heavily involved team management, which made it a very productive and great learning experience for me, since Will and I ended up as an effective team. He left a lot of the organizational work to me but he, as a very good economist and experienced operational economist, taught me a lot in terms of how to think about involving ourselves in what was a very complex program.

In some ways, in fact, it was quite a modern program, because it was not the usual tranched structural adjustment operation where you have first tranche and the second tranche, but—and this was Will Bussink's contribution—we thought of this as a multi-loan program of single-tranched adjustment loans. We had in fact mapped out a five-year program of structural adjustment for Thailand, linked with a macro-economic model of structural adjustment that projected the cost and benefits of what could be derived. So we had to develop a long-term program of single-tranched structural adjustment loans in support of a long-term structural adjustment reform program. Today this is now the standard approach but it only came back into vogue about four or five years ago in the World Bank as so-called programmatic adjustment loans.

So in that sense, we were ahead of our times. We had to fight tooth and nail because it was the exception in those days. In fact, it wasn't repeated much afterwards, even though I believe it was quite a successful approach in the case of Thailand. In fact, there were moments when we thought we would not get this first Thai structural adjustment loan approved internally. We had to convince our then regional vice president, [S.] Shahid Husain, who in turn had to convince Ernie Stern, senior vice president, who was always very critical of Thailand and of the Thailand program. In the end we did succeed, and it turned out that this was the first of two structural adjustment loans that I worked on for two or three years.

A third structural adjustment loan, which was supposed to deal as part of a longer term program with financial sector adjustment issues, actually was started to be prepared but was never completed and was never taken to the Board, because the Thai government in those days pulled back from cooperation with the World Bank, particularly on adjustment reform. They basically said "Oh, we don't really need this anymore. We're so successful. Who needs structural adjustment in the financial sector?" Well, with the benefit of hindsight, it's unfortunate because, in fact, a number of the reforms that we had targeted as part of this third structural adjustment loan in the mid-1980s, if they had been implemented, they might have helped prevent the crisis in 1997, ten years later. That's speculation. But, in fact, I remember sending some of our documentation from the 1985/86 structural adjustment program to the team working on the 1997/1998 adjustment loans for Thailand and much of the work had not been done and many of the reforms had to be then carried out later. So, in some ways, it was unfortunate. But in the areas in which we did work, the program was quite successful and much of the economic miracle in Thailand was associated with the reforms that were carried out in those days.

BECKER: Did the proposals for the structural adjustment lending involve bank transparency or regulation in banking?

LINN: Right. I don't remember the details now but it basically had a lot to do with assuring an effective management of what was still a fairly important state banking sector. But also appropriate regulation of the private financial sector, as well of the non-bank financial sector and the development of a sound capital market more generally.

BECKER: How did your work on Thailand affect your thinking about development?

LINN: That's a tough question. Well, let me say, first of all, I continued during my work in Thailand to be fairly heavily engaged on the public finance side: budget management, expenditure management, tax revenue mobilization, decentralization. I led one of the early public expenditure reviews in the Bank, for Thailand. It must have been in 1984/85. It was a major task, and for me, again, a huge learning experience, because I was able to pull together work not only in the areas having to do with the macro-economic dimension, going back to my education at Cornell, but also from my work on the urban side. I also drew on my sectoral colleagues in education, health, and infrastructure, and so on. It meant pulling together an important, very comprehensive and, I think, useful document.

We also had some very intensive dialogue with the Japanese and Thai governments in those days, because the Japanese and Thai governments were planning a major regional development program that from our perspective would have caused considerable fiscal and macro-economic fiscal risks and probably been also, in terms of regional development, misguided in the scale in which it was intended. So it involved important issues of dialogue, linking quality analytical work with serious dialogue, both with a recipient government but also with an important partner government, namely Japan. And throughout the whole negotiations process for the structural adjustment loans, where we had to interact with both senior working-level counterparts in government but also with, of course, senior administrative-level counterparts, I learned a lot about negotiation. I learned a lot about the value of sound analysis based on economic and sector work, on teamwork, on working across sectoral areas and then developing reasonably effective—I think with the benefit of hindsight—financial as well policy advisory programs in support of recipient and partner governments.

In addition, I think working on Southeast Asia I learned to work in what was for a very different cultural environment compared to Latin America, where I'd worked a lot previously. Of course, my own background was originally in Europe and in North America. I think the exposure to a very different cultural environment was also very important. And I think I learned a lot in terms of just being careful in not rushing to judgment on people, on countries. So those are some of the important lessons.

Again, I think I learned a lot in terms of working with teams, because we have these very large teams that we had to put together for the adjustment loans and for the major economic work. And I met some people who were very important for me later on. There was Mieko Nishimizu, who was later on a director in finance with me and subsequently of course, became vice president for South Asia. I worked in those days with Young Professionals, now important

people in the Bank: Dannie [Daniel] Kaufmann, Enrique Rueda-Sabater, YPs in those days, now senior members of the World Bank management team. I worked with Geoffrey [B.] Lamb, who is now vice president; he then worked as a member of my public expenditure team on budget and institution reform. So it was a wonderful way of drawing people in, getting to know them and building up great networks, which were very important to me later on.

I also worked with some excellent managers from whom in turn I learned a lot. Including Nick [Nicholas A.] Gibbs, my first division chief, who unfortunately died a few years later of cancer. Kim [Edward V. K.] Jaycox, my country director, who previously had also been Urban Projects [Department] director, whom I knew quite well. He was followed by Gautam [S.] Kaji, who later on became vice president and managing director. He was my country director in East Asia for many years and I ended up being his economic advisor for many years. We became very good friends. And then there was Quill [Christopher L.] Hermans, who succeeded Nick Gibbs as division chief of Thailand division, who was also later on governor of the Central Bank of Botswana. So there were a lot of people whom I respected a lot: managers, colleagues, including also Ian [C.] Porter, who is now country director in Thailand and who was then an economist in the Thailand division.

There were a lot of good people, and these were very formative years. I always said being a country economist was perhaps the most enjoyable and most exciting, in many ways, time of my life, except for later on being vice president for Europe and Central Asia. But it was a wonderful, wonderful time.

BECKER: How many trips did you make to Thailand? How much time did you spend there?

LINN: In those days it took about two or three days to get there. It was quite a long way. Once you got there, you tend to spend three or four weeks. I think my longest trip was probably four or five weeks. I probably went three or four times a year. It was intensive. And I was just talking to my wife this morning in the car coming in, she said, "Do tell them you depended very much on your patient and forgiving wife for all the days, weeks and months you were gone."

And actually that was the downside of—I just think—as an aside, a downside of that period because I spent so much time traveling. My children were just growing up. They were little. My wife's American, my children are American, but I tried to speak German with at least my daughter, tried to teach her German. I remember my daughter who was two or three years old then and I had spoken German with her for the first three years of her life. Well, after my first long mission to Thailand, I came back, both of us, my daughter and I were clear, we didn't want to waste any more time trying to communicate in German. So she lost the German and that was just one small part of the cost that you do bear on the personal front. I think if you go back and talk to my children about it—and my wife—I think they will say this was, in a sense, probably the hardest time that we had, because it involved so much traveling and so much distance from the family. So it is a real cost that one bears.

In fact, again with the benefit of hindsight, I sometimes wonder these days whether I made a mistake in not actually going into the field as a res rep [resident representative] or in some other resident assignment. Now, strangely enough, the choice never came up. In other words, I was never confronted with an explicit opportunity, but I could have looked for it, which I never did. In a way, I have some excuses for that, but that's another story. But my advice to people later on, as a manager, was always try and go out in the field because, in fact, it's good for your career. It's good for your learning about countries and your work. But actually, in a funny way, it's probably also good for your family because . .

BECKER: Because they're with you.

LINN: . . they're with you. Again, it cannot always work out that way but—because sometimes you travel a lot even when you're in country. But, on balance, it is a good experience for everyone, I think. And so I would recommend it, especially in today's world with de-centralization; if anything, it's become much more important. I would advise people to go out and spend a few years in a resident assignment.

BECKER: Good. There were two questions that I wanted to follow up on. One has to do with your initial skepticism about structural adjustment. How widespread would you say that was in the Bank?

LINN: There was, I think, a fair amount of debate at the time among senior management, but I think it was basically Ernie Stern pushing it. I'm trying to remember. I guess it was still under Mr. [Robert S.] McNamara when, in 1981, it was the time of the first financial crisis emerging. It was felt that the Bank needed, and was called upon, to make these larger balance of payments, budget support, loans. I'm not 100 percent sure, because I was not in the debates in those days at senior management level, but it was probably also Ernie Stern's recognition that with it would come increased leverage over the policy side. And there was a view--I believe in those days already--that projects alone and the leverage which the Bank had through project loans was not sufficient for policy reform, for institution building. So, there was this debate between the traditionalists on the project side and the more sort of modern way of thinking, which said, "We need--of course we need as an institution to be helpful in crisis and provide balance of payment support. But also, by the way, this can deal with some of the problems we have in assuring adequate policy reform and institution building, which is essential so that projects can in fact be successful in the long term." In essence that's the same as the theory which was later documented by David Dollar in his research on aid effectiveness which concluded that aid and investment, financing and so on, can be effective in a context of appropriate policies.

So, yes, there was a debate. I think there was fairly widespread skepticism, especially, as I said, among the traditional project people, which of course in those days was the majority. And so, when structural adjustment first came in, I remember these were handled largely by what was then the program staff, in fact, by the program economist, like myself, and the senior economist. I think our traditional projects departments colleagues were quite skeptical about what this instrument could achieve and so initially it was of course also not very widespread. It started

relatively small in a limited number of cases and only gradually did it then gain momentum and become as important as it finally became.

BECKER: Okay. One other question. It has to do with the reactions of the Thais to the Bank. Not the Thais generally but the officials you worked with there. Did you get a sense that there was a division within the Thai policy or government elite about working with the Bank? Or had they bought into the kinds of reform the Bank was proposing?

LINN: Well, we worked with a group of young reformers in the various core ministries in the Budget Office, the Planning Office, the Ministry of Finance, and the Central Bank. And I think the young reformers of the day were sort of a core, together with the minister. Actually, I don't remember who the minister was. But also the Central Bank believed that the policies that the Bank was supporting were, in fact, the right policies. And I have to say they were based on the program that was supported by a very modern approach, which preceded my arrival, based on an in-depth country economic report with a lot of input and background papers prepared by Thai experts. So the structural adjustment program was already in place, a program that was significantly owned by these young reformists and their academic counterparts in Thailand. So that, in essence, we didn't bring anything dramatically new through the adjustment negotiations. It was really based on analytic work and a dialogue that had gone on for, I would say, for about eighteen months to two years. It was Ed Lim and his colleagues who had taken a lead in setting this up, so I was the beneficiary in a way. When we then converted this structural adjustment program into the structural adjustment loan and thus we were able to pick up on all this early work. But also, with it came the earlier and significant ownership of reform among the Thai officials which I think contributed because the ownership of the loan program was there. There was this core team in an inter-governmental working group. There was also a clear sense of crisis that helped, of course, give attention to the need to promote action. So all of these things came together to make, I think, a successful program.

However, tensions arose when we got into the negotiations about what were to be the conditions against which we would disburse the loan funds. Even though we had the advantage that we did not have to negotiate the conditions of multiple tranche releases, we still had to negotiate about what exact conditions do we need to put into the program so that we can sell it to our management, sell it to our Board, so we can be confident that the program is consistent enough, crisp enough, deep enough, enough actions in it. That is when the tension started between us and the group of reformers.

I learned something important as part of this process: the psychology of money in exchange for, or as a motive for action is a very bad one. It is a very difficult one, even though it is unavoidable. I am not arguing that one should not pursue it and that lending money is a bad idea. But in pursuing it, you have to realize that you very quickly get drawn into a potentially confrontational, antagonistic dialogue, because the side in the bargain that receives the money will always resent the leverage that the donor has over them by the ability to withhold the money and therefore to cause a crisis or at least cause discomfort and political costs.

And, if I may, just project, that lesson was reinforced to me much later on when-- in 1989, I guess it was--I became involved in negotiations between the World Bank and the U.S. Treasury Department in connection with the IFC [International Finance Corporation] capital increase. The, in effect, the U.S. Treasury said to the World Bank Group management, "Yes, you can have the IFC capital increase but only if you meet our conditions, our very detailed requirements that we place on you to improve and modernize your private sector development programs and how you deal with the private sector." We had very tough negotiations at that time involving President [Barber B.] Conable, Sven Sandstrom, then the assistant to the president, and myself. I got involved for reasons that I will come back to. What struck me in those days was how angry I felt being on the receiving end of the same kind of conditionality, money for good behavior.

Now, the tone matters. It so happens this was in the first [George H. W.] Bush administration, where our counterparts in the Treasury were particularly arrogant and difficult to deal with. So tone matters, that is, how you present yourself as the person exerting conditionality. But that's part of what one has to learn, I think, when you are in this perhaps inevitable, imbalanced position of being able to give and withhold money for good behavior. You have to realize that the psychology's almost inevitably bad.

Now this leads to an important lesson more generally. While our dialogue remained productive and useful through the second adjustment loan in Thailand, our Thai counterparts increasingly got impatient with this relationship, this imbalanced relationship. And they simply did not want to deal with it anymore.

I experienced the same reaction in a number of other cases, in Russia after the 1998 crisis, after we had engaged in a number of years of adjustment lending, where there was the same tension and resentment against this unbalanced relationship that developed very quickly and was--ultimately led to rejection on the client's side. I've seen it also in Turkey. It's a very common phenomenon in virtually any country where the Bank gets very heavily engaged in adjustment lending, particularly in crisis situations where the dependency and imbalance in relationship is so, so significant. We have to expect that there will be a period afterwards where there's a backlash against us, where they're pulling back, as in Russia, and to some extent in Turkey, perhaps less so, partly because there's a new government. This certainly was the case in Thailand. I experienced the same thing in the Philippines when I was lead economist for the region and working on a Philippines adjustment loan. It's an almost inevitable development, so the Bank has to be ready for this.

I believe also, though, that it has to train its economists, its managers to be sensitive and make sure they're aware and be very sensitive to try and deal with this imbalance in the relationship as sensitively, as gently as possible. Now there are times you have to be tough. You have to, you know, you have to stand your ground. You cannot simply keel over every time and, you know, say, "Okay, well, we'll waive this or that condition." That doesn't work either. But you have to realize that when you are standing tough, there's a cost to it, in terms of relationship, in terms of perception of the institution. You mustn't compound that cost through being arrogant or being seen to be exerting more high-handed leverage than is absolutely necessary.

BECKER: Do you think that that might be a source of some of the difficulty for the IMF, in that when they come into these situations, it's usually with a price?

LINN: For the IMF, it's even more extreme. What has always been in a sense a saving grace for the Bank is that we have these other one or two tracks that we work on with our counterparts, the broad-based project program in particular, and, of course, the advisory and analytical work where we work with academics, NGOs [nongovernmental organizations] and whatever. So we were always able to fall back, to some extent, on those when the adjustment lending relationship was either completed or didn't go so well. The IMF has much more limited capacity or basically has only one track. It also has a technical assistance track, but it's much more limited. And, of course, in some ways the Fund is more involved in even more painful negotiations. It’s also partly because of internal culture of the Fund that is seen to be perhaps more arrogant than the Bank generally is seen to be. So, yes, I think you're right. The IMF faces the same problem, but probably even much more so than the Bank.

BECKER: You left the Thailand country program after three years and went to work in 1984 in the East Asia director's office as senior economist. How did this change of job come about?

LINN: Well, Will Bussink, who was then my predecessor in that position of lead economist in East Asia, went to India as a lead economist there. So Kim Jaycox, who was still director, asked me to succeed Will. In those days, we didn't have the very careful selection procedures that you have today, with being vetted by committees. It was a very simple process, as I recall, of managers deciding X for Y and then basically moving people around. So it was very simple; Kim simply asked me to come over. But within a month he was promoted to be vice president of one of the two Africa Regions--I think it was East Africa--so he left, and Gautam Kaji was announced as his replacement. He came over from Personnel, where I think he was Deputy Director for Personnel [Director, Personnel Management Department] and I never had met him. So to me it was quite a shock, because I thought I'd work with Kim, whom I knew very well and respected very highly, and I had this total stranger that all of a sudden I had to work for. But it turned out to be a great choice because Gautam was in fact a wonderful person and a wonderful manager from whom I learned a lot. He was especially an operational manager of just extraordinary capability.

BECKER: And what were the responsibilities of a senior economist?

LINN: Well, in those days you had two types of departments in operations. You had the country programs department, which basically did the country economic work, the country strategies, which were then called “country program papers.” The country programs department tried to, as best as possible, manage the lending program in line with the country strategy. But the country department competed for power and influence with the then very powerful projects department. The director of programs and the director of projects reported to the regional vice presidents. The projects department had all the administrative budget and was in fact in charge of preparing and implementing, supervising all the projects except for adjustment loans, which were managed

by the country programs department. De facto, it meant that there was a continued struggle between country programs divisions and their counterparts in the projects department. In particular the deputy assistant directors in the projects department actually decided what projects were going to be in the pipeline, what sector work was to be done, when, by whom and so on. It was quite a murky division of labor and a continuous tug and pull. The directors—that is, the country programs director and the country projects director—had to try and negotiate with each other as their underlings fought it out in terms of what was actually happening on the ground. It was basically the project departments which ran the show.

Now as the country programs senior economist in the department director's office, my role was to supervise and advise and mentor all the economists in the country programs department. There were maybe 20 economists working on six or seven countries. I was also in charge of basic programming and assuring implementation of the economic part of the economic sector work program. All the economic work in the Region was in turn supervised and monitored by the regional chief economist. So I actually had a dual line of accountability: one to my director, but also another one to the chief economist, who was then working in the front office of the vice president.

As it happened, for a while I still was quite engaged on Thailand because that was, of course, where I came from. So I still had quite a role in working on Thailand. But I increasingly stepped back from Thailand and provided guidance and input when there was a need to resolve issues, and I helped with the country dialogue. In the Philippines, for example, there was a case where the structural adjustment loan negotiations got stuck. I was sent out to help the team resolve these issues. My job also gave me an opportunity also to visit China and Indonesia, which were the two largest country programs. In some sense, they were the most exciting country programs in the Region. And, of course, China in particular was in its formative stage.

One has to add that the China, the Indonesia programs were in those days already ahead of their time, as they were largely managed out of the country offices by the reps or country directors. They were almost autonomous in the way they worked, responding directly to the vice president. In the case of China, actually, since this was the early days of the building up of the China program, the res rep responded directly to the guidance not only of the regional vice president but also the president's office, which was quite heavily engaged in China. But for me it was an opportunity to visit, to assist in reviewing the country strategies and the economic reports, and providing some mentoring and guidance also in those countries.

BECKER: Did what you saw have any influence—jumping ahead very briefly—especially in Indonesia, did it have any influence on your thinking later on about de-centralization and the importance of the resident staff?

LINN: I think it's fair to say that some of it only crystallized later that, you know, the Bank should over the long term try and beef up its presence on the ground. But maybe more importantly, lessons from this East Asia experience that I absorbed--and I think others absorbed--influenced the reorganization work in 1987.

BECKER: I'm going to ask you about that.

LINN: For me, the core of the problem was this conflict between programs and projects departments and the inability of the programs department to manage a country-oriented program, because you always have the projects people basically doing what they wanted and overriding country strategy decisions and directions. That, to me, was a very important conclusion that I took away. And over the years—in fact, not just in '87—that remained to me a very important learning experience, which then was reflected in my involvement in the '97 reorganization of the Bank.

In terms of decentralization, yeah—well I guess maybe I should say this--especially in the case of the Thailand country office, I realized we were very dependent on our colleagues in the Thai office to get our work done, including the secretarial staff. I developed a lot of respect and affinity and worked very closely with people in that office. I felt very much at home there, and every time I came to the Bangkok office it was, in a sense, like coming home. In fact, when you get to a World Bank office, whatever country it is, as a member of the World Bank staff or management, you almost always come to a place where you feel at home.

I always have valued very highly the country office staff at every level. Secretarial staff sometimes is more important to you than the senior staff because they actually manage all the contacts with the government officials. I learned very quickly that the secretarial staff actually would directly talk to the ministers or at least senior officials, get the arrangements done and so on. And I've always, wherever I went, invested time in the human side of my relationship with national staff because I felt they're such an important pillar of our work. Without them, the Bank couldn't function, so later on I supported the process to upgrade their role and the recognition of national staff, to break down some of the barriers. I was always a great fan of such initiatives because I actually felt that our national staff is terribly important for the Bank's work. Traditionally, we had a headquarter-centered approach that we had to live with and be very much a part of, but really we had to have a more balanced approach where a country-based staff played as important and visible a role as the headquarters based staff.

BECKER: You've touched by implication on what has been called the "Asian Miracle" in talking about Thailand. But looking more broadly at what was happening in other countries in that area, how would you assess the Bank's role in sparking this rapid economic development in Asia during the 1980s and the 1990s?

LINN: Well, that is a difficult question. In the case of Thailand, I believe the analytical work that was carried out by my colleagues before I joined the Thailand division in close cooperation with, and drawing very heavily on, local experts had a big impact. By that way, later on, these local academics in Thailand with whom we worked, later on became senior officials, especially in the Ministry of Finance but also in the Central Bank and in other senior positions. Anyway, I think in Thailand the World Bank certainly played a considerable role in supporting and in creating the understanding of the structural, social and institutional requirements for modernizing

Thailand, which was in the early ‘80s still in many ways a very traditional economy and particularly had a traditional public service. So I think the Bank played a major role.

One important example was a very important and intense negotiation with Ministry of Finance and Central Bank officials about the devaluation of the Thai bhat. Thailand had had a long term fixed exchange rate vis-a-vis the dollar, and we believed that this was creating major problems, so we argued with them about a possible devaluation, which they found hard to swallow. But I think the devaluation that the government then agreed to, after long dialogue with us, was for Thailand a major step forward that kick-started its own recovery and growth, together with a number of other factors, including very importantly the fiscal stability for which our public expenditure analysis and related fiscal work helped lay the ground.

In the other countries I am somewhat less able to say, but my impression is that the Bank contributed to the Philippines coming out of the crisis of the early and mid-‘80s. In China, of course, we were quite deeply involved. The Chinese, themselves, I believed recognized the support, not only financial, but even more importantly the advisory and analytical support the Bank has provided. Similarly, in Indonesia we worked quite closely with BAPPENAS [Badan Perencanaan Pembangunan Nasional], the Planning Ministry. I think the Bank played a role.

Now, was the Bank’s role overwhelming, was it the principal factor? I don’t think so. But I think the Bank did play a generally salutary [role] in the ‘80s. And so I would say, looking back, it was in the ‘80s and into the ‘90s a success for the Bank in East and Southeast Asia.

A colleague of mine, Amar Bhattacharya, who was then a senior economist in the regional chief economist’s office, and I wrote a paper on the industrial and trade policies in East Asia. Those were the days when Anne [O.] Krueger and others in the Bank advocated strict neo-liberal policies. We, however, argued somewhat against the grain. We supported the East Asian policies of somewhat more managed trade, albeit highly export-oriented, with some domestic protection and a moderate, modest industrial development policy. In our view, this approach worked in the East Asian context where governments were relatively effective and not as corrupt as elsewhere in the world. We therefore supported not only structural reforms but also the homegrown policies of Korea, Taiwan, and Thailand, and showed a lot of the flexibility that I think our critics generally do not associate the Bank with. I think the Bank had much more flexibility and much more diversity in working with its clients in East Asia--China being a very good example--where we didn’t follow a blueprint of the so-called Washington Consensus. So I, I think yes, the Bank played a role in the countries. I think we also were supportive of some of the special development choices that East and Southeast Asian governments made. Amar’s and my study on industrial trade policy is a good example of a somewhat less than orthodox approach.

BECKER: Has it been published?

LINN: It was a Bank Staff Working Paper. Yes, it's been published. I think I have the reference to it in my . .

BECKER: In your list?

LINN: . . in my CV, yeah.

BECKER: Okay. Well, I can find that.

LINN: Well, if you can't find it, let me know. Because I don't, unfortunately, have a copy of it any more, even though it's one of the pieces that I'm actually proudest of. We spent a fair amount of time on it. Unfortunately, it was never published as a book or anything like that.

[End Tape 1, Side A]
[Begin Tape 1, Side B]

BECKER: Most students of the World Bank see the 1987 reorganization as a particularly difficult or wrenching time for the Bank. You were selected to work full time on a working group. What were the responsibilities of your group and what was your assignment in the group?

LINN: Well, as I recall, there were three working groups at the time: one was the operational working group; a second was the policy, planning and research (PPR) group; then there was, I think, a group on administration-related matters. I was selected to be a member of the PPR group. I think in terms of lasting impact, the main work was carried out actually by the operations group, and this involved people like Gautam Kaji, Caio Koch-Weser and Ed Lim, operations directors who decided that what was needed was a much greater country focus, that we needed to get away from this division into programs and projects departments that we previously had had, and that we needed critical mass. Therefore, they recommended the creation of rather large, new country departments that would combine traditional programs and economic staff and projects people.

Now that's important because this model, the new model, of a comprehensive country department with traditional programs staff and with a comprehensive contingent of project staff was then in place for about ten years. The problems this created led then to the reorganization of 1997, which we'll probably come back to later. However, I wasn't involved in that side of the reorganization. What I was involved in was in the creation of the Policy, Planning and Research Senior Vice Presidency (PPR), because in fact what came out of the reorganization, as you may recall, was four senior vice presidents: one for operations, one for PPR, one for administration, and one for finance.

We were in charge of, in effect, designing this new senior vice presidency and I think our contribution in those days lay in creating a set of professional, sectoral, and thematic units, together with the economic research department [International Economics Department, Country Economics Department] and the chief economist’s office. It also included the budget office, which was why it was called Policy, Planning and Research. Our intention was basically to try

and bring together research, traditional sectoral analysis, and policy analysis, and the Bank's overall strategy and programming work. The senior vice president who was appointed was Wilfried [P.]Thalwitz. The senior vice president for operations became Moeen [A.] Qureshi. Ernie Stern lost out in the shuffle and became SVP for finance. Willi [W. A.] Wapenhans became senior vice president for administration.

Now, in many ways, our working group—I think with the benefit of hindsight—was somewhat marginal because the big decisions for the largest part for the Bank—for operations—were decided in another group. But, looking back, we pushed an important and valuable principle, which I regret has since not been as effectively followed up on and implemented but which worked well for the ten years after which this 1987 reorganization was implemented. That principle was that we actually integrated research, policy work, and operational support from the central analytical units. This came from a history where the research department [Economics and Research Staff] under Anne Krueger as chief economist and head of research had been quite isolated as a sort of ivory tower. You also had central projects departments pre-1987, which worked quite closely with operations but lacked the linkage with research, and then you had a strategy group that was also operating rather isolated. The whole idea was to bring research, policy, sectoral analysis, budget, and strategy under one roof.

Now, I actually believe that that worked quite well. What unfortunately happened—and this I think was a step back in '97—was that this unity was again split up. We now again ended up with a research group that is, I believe, too isolated. You have, in fact, the budgeting and strategy separate from the more substantive focus. So while you have, under the post-'97 reorganization, through the matrix system that we'll come back to, quite a close alliance on the operational side, you have research and strategy off to the sides, not sufficiently, I believe, integrated.

Finance is a separate story, which we can come back to. So the purpose of, from our perspective in the PPR working group, was to create this interaction and synergy and closer collaboration between research, policy, operational support, and the strategy and budget. Now, as I said, under Wilfried Thalwitz, who was in charge of this group, and later on, under Stan [Stanley] Fischer as chief economist and head of an over-arching research department and heavily involved in strategy, this actually worked quite well within PPR.

On the other hand, there was a problem which ended up being one of the reasons for the reorganization of '97. The problem was that the '87 reorganization created what was then called the President's Council, which aside from the President contained the four senior VPs and thus actually four chieftains who ended up fighting each other tooth and nail, because you ended up having these four organizational silos where all decisions had to go up vertically to the top. Whether it was budget, strategy, or anything on the operational side or on the finance and administrative side, it all had to go up and be resolved in the President's Council, which was very difficult to do. This, in fact, did not lead to adequate resolution of issues, that is, horizontal resolution, because everybody ended up channeling ideas vertically up without adequate horizontal consultation.

So what I've told you about now are some of the design issues we grappled with and some of the results, both positive and not so positive results, of the '87 reorganization. But before going further into the design issue, of course there was then an implementation issue. And it was on the implementation side where I think most of the negatives with that '87 reorganization appeared. This was particularly true among staff, although to a certain extent also among managers, but especially among staff. The long term wounds and the very negative perceptions among staff, even today when you talk to them, are still prevalent. That was not so much, I think, because of the design--although you can criticize various aspects of the design--but it was the way it was implemented. When this new structure was put in place, an important procedural decision was made, for reasons I have no idea about—I think it was probably based on the recommendation of the consultant team that was advising the president in those days, maybe others; I don't know--but the decision was made to basically tell the staff, de facto, “All of you are without a job as of today. We have a process (or as of day X we will put in place a process) whereby you're basically first fired and then hired back into new positions since your current positions are abolished. We will hire some of you back into the new positions and there will be a process for this hiring back.”

So everybody was at risk for an extended period of time, for, I don't remember, it was two or three months. Of course the president had remained in place. The senior vice presidents were selected first and they would select the vice presidents, who would select the directors. The directors would select the division chiefs. All of this, as I recall, involved not a very transparent process, and then the division chiefs, together with the directors, would basically grab staff wherever they could find them and wherever they would have friends and wherever they saw talent or whatever. So from the staff perspective, but even the lower and middle management perspective, there was this long period of dramatic uncertainty about whether or not you had a job and what, if any, job you're going to have. As a staff member, you were at the end of this, of this food chain. It was just a sense of total abandonment of the staff. They had gotten used to feeling secure in lifetime employment, felt valued by the institution. They had always been told, you know, “You are very valuable. Without you, we're nothing,” and so on. For a long time there were huge scars because the reorganization broke, from the staff's perception, a bond of trust between the staff and the institution. The staff--being mostly G4 visa status and having dedicated very much, in terms of their career, to the institution--felt vulnerable. With little fungibility outside, staff felt very exposed if they were to be not hired.

Now, ironically, the people who, in my experience, in these situations suffer the greatest stress and react most nervously are the ones that in a sense have least to worry about. It's the high achievers who end up being also the most worried. In fact, in the end, I think very few people got fired. So if the goal was to in fact get rid of old wood and whatever, that wasn't even achieved. After all the musical chairs were done, most people were again sitting on a chair, but the process produced this incredible scar. I believe, from the benefit of hindsight, though, that certainly this was an unnecessary approach. Now again, it was a lesson that was learned for the ‘97 reorganization. Things were handled differently then, based in large part on the lessons learned from the 1987 reorganization.

BECKER: That is more transparent.

LINN: It was more transparent but also the great difference was only managers were at risk of losing their jobs in 1997. In fact, a number of them did. Staff was guaranteed a job, without necessarily knowing exactly what job. Staff was told, from day one, that you are not at risk, you may have to change jobs but there is a place for you in the new post-reorganization environment.

Anyway, I believe the treatment of staff during the implementation was a cause of great pain and great anguish and great criticism of the reorganization in '87. Another criticism was also related in part to implementation; namely, the emergence of the set of four vertical silos. I have to say, I put this as much at the feet of the individual vice presidents and the president of the day, Mr. [Barber B.] Conable. Mr. Conable was a wonderful man whom I learned to respect very much, particularly towards the end of his career when I worked somewhat more closely with him. But frankly, he and the senior vice presidents simply did not, couldn't and wouldn't want to seem to work as a team. Later on, occasionally when I was acting for Stan Fischer, I was actually sitting at the table of this presidential policy making. The kind of antagonism, the kind of fights you had around the table, with the president basically unable to control the fight since he couldn't control his senior lieutenants, it was just a disaster. So one of the decisions I'm sure Mr. [James D.] Wolfensohn made in coming in—I'm sorry, I have to step back. It was already Mr. . .

BECKER: [Lewis T.] Preston.

LINN: . . Preston, who changed, of course, this system dramatically by forming his small group of managing directors. And, as a seamless web, I think it had a huge positive effect in that regard.

But then there was another problem, which I referred to earlier, on the operational side. There you basically had in these large country departments a number of mini-regions within each Region. Each country department, in fact, had a director who basically became a king.

I experienced this in my first year as vice president, when I came into the Europe and Central Asia Region. I had four country directors and one technical department director. And basically I couldn't find out what was going on inside each department, because even within each department you had a number of sector division chiefs, each of them running their own sectoral fiefdom. Even the director, I learned later on, didn't really know much of the time what was going on. There was very limited communication across country departments between the sectoral staff. And, indeed, in some ways within these mini-regions you re-created the programs versus sectoral division that we already had previously.

So while the idea of creating more country focus worked reasonably well for the large countries like China, Indonesia, India, for the multi-country departments, of which there were many, it didn't work very well. It basically created mini-regions with many of the same problems as

before. So that was another criticism. But, I, coming back to it, I think, in terms of most of the staff, all of these were fine points. The real problem was this . .

BECKER: The way it was put in place.

LINN: Yeah. And I have to say, it was just a disaster. I was lucky because I guess I never worried much about it anyway, maybe because I felt, having been part of the process, I felt, "Well, someone will pick me anyway." But as it happened, at the very beginning of the implementation process, I was tapped by Ben [Benjamin B.] King, then acting chief economist. Anne Krueger had just left; Ben King took over as acting chief economist. He was director of the economics department [Development Economics Department] under Anne Krueger and he asked me to become the head of the 1988 *WDR* [*World Development Report*], this was in 1987. So for a year, I was watching all of the chaos and upheaval from the sidelines while having a great time managing a small team doing the *WDR*.

BECKER: Could you talk just a little bit about how this works? How putting one of these reports together works? How did you divide up the work within the team?

LINN: Well, the *WDR* basically requires 12 to 18 months. Once you've been selected as the team leader, with advice from the chief economist and so on, you can try and pick the best people for the team that will then work with you. You have a budget, in those days, of about $5 million that you can both spend on salaries as well as on consultants. You prepare an outline, which actually has to be approved not only by management but by the Board fairly early on. And then you have a bunch of chapters that come out of the outline because that's what reports are about. You then find the best people you can and give responsibility for one or sometimes two of the chapters each. Sometimes we will form maybe a small team of two people working on one chapter together. And you basically then set off to work. You do the background research, you ask people to write background papers, both among the team, but also the core team, but also from outsiders that feed into the production of the report.

You start off, though, already having in your mind certain messages. These *WDR*s are not basic research enterprises. These are basically synthetic efforts. So you go into them already having some idea of knowing to some extent where you're going to end up. Of course, as part of the process, as part of the journey, you sometimes also have to change your mind. But if you don't start off with some fairly clear idea of where you'd like to end up, you can be all over the place in these reports. You also end up, as was the case in some of the earlier reports that I witnessed from afar, with huge fights and controversies within the team. This can lead to very complicated efforts at the end to try to pull everything together. You can have people fighting and leaving the team and so on. There's been histories of that.

BECKER: Let me ask you, did you convey to your colleagues the themes that you wanted to follow?

LINN: I'm trying to remember how early in the process. I think what happened is that I had a very broad outline with not a lot of details yet. That was at the early working stage. I then put together the team. It was a young team of relatively unknown, inexperienced, but from my perspective high quality people. In fact, many of them have come a long way in the institution since. We then ended up, as a team, determining what we wanted to do in each chapter, in each section, and the overall message. So, it was, I believe, if I recall correctly, it was a team effort.

But this is important, it was for the ownership of the exercise or—there's always a tension if you don't put something up front in terms of structure and themes and so on. You end up with perhaps too long a process and you've not led the effort effectively. At the same time, you don't want to close down debate too early. So it's something you play by ear to some extent.

But I believe that the team in fact had a pretty important role in helping from quite early on in shaping the product, to some extent the structure, but especially the key themes in each area. In my case, what to some extent helped me was that because of all this reorganization, because the chief economist was in transition, we were largely left to our own devices. In fact, Stan Fischer came in as chief economist after we already had done our first draft of the report, and he basically said, "Look, it's your report. I'm coming in this late. You basically handle it."

We were, thankfully, spared what is often the most painful part of preparing these reports, getting everybody's views from outside the team, some having strong views, sometimes having very antithetical views to whatever you're trying to say. Pulling this all together can be difficult, the sequencing, getting different views at different stages, watering down—at least what the team sometimes perceives as watering down—strong messages. I was spared that part of the process because there was, in a sense, a leadership vacuum in the institution at the time. So we sailed through rather smoothly in a way. We went to the Board and completed the report fairly smoothly. Also, the team was very cohesive, maybe partly because it was relatively junior. We didn't have any great stars that went off on their own as previous reports had had.

We also—well, maybe we need to stop here because there's a couple of things on substance I wanted to mention.

BECKER: Well, I wanted to ask you about the substance. What influence did the report have within the Bank and then also outside the Bank.

LINN: Well, for me personally I think the most important part of the exercise was to set right the balance that I felt had swung too far in the previous two or three reports under Anne Kreuger and her staff. Her managers had swung too far in the direction of a pure market orientation, if you wish, what is now caricatured as the “Washington Consensus.” The agriculture and the trade reports were very hard-line, almost ultra-liberal, neo-liberal as some people call it. In a sense they established, I think, the Bank's image as this hard line, narrow-minded, “Washington Consensus” institution.

Now, I think those reports served a purpose in some sense; namely, they did in fact establish that there are certain principles of trade, free trade and agricultural policy and so on, that are very important. But in a way they were pushed to an extreme, I think. They underplayed the role of government, effective government. Indeed, I think they created long-term problems for the institution because they were seen outside as in fact reflecting mainstream Bank thinking and practice. In fact, that wasn't true.

I mentioned to you earlier the East Asia regional practice, where Bank operations have always been much more flexible. The Bank had not followed blueprints, has not been narrow-minded following either one or the other sort of extreme intellectual and ideological bent. If you look at the '88 *WDR*, you will find that it was basically about public finance, basically about good government, good fiscal policy. We very deliberately set out to correct that balance. We make it very clear that government is important, that good government is important, that you have national central government and that you have state-owned enterprises which have to be well managed. Yes, there's a privatization process which you have to go through, but there are social service requirements, infrastructure service requirements that have to be met by government. Still, yes, there is the role for the private sector and a need to support private sector development. But there has to be a focus on good government and governance because they are absolutely essential. In fact, I remember reading—where, I don't remember now—about the pendulum of opinion about the role of government swinging back and forth. And actually, it's interesting to think about, even historically, for you as an historian. And, as you know we're currently going through another swing right now. So, to me, righting the balance between public and private sector roles was a very important part of that report.

The second point of substance, as it actually turned out, I wasn't so much aware of it going in. It revolves around the notion of an appropriate fiscal policy as a core macro-economic policy essential for long-term stability and, indeed, sustained growth. The need for a proper balance between monetary and fiscal policy, I believe, came very clearly out in the macro chapter, which was, by the way, written by Bill [William R.] Easterly. As you know, now he's a big critic of the Bank, but he was a wonderful young colleague in those days, a very good macroeconomist and growth economist. I have my own beef with what he did later, but he was a great colleague and very, very good. I learned a lot from him and from his work and from others who worked with him, including Willem Buiter, who is now chief economist at EBRD [European Bank for Reconstruction and Development] but who was a consultant to us on the macro part of the work.

What I learned is that the worst mistake governments can make, which inevitably leads to problems—and which is going to catch this country, the U.S., I bet, in the medium to longer term—is the combination of loose fiscal policy and tight monetary policy. For example, the Russia crisis of 1998 you can trace back to this problem, or the Turkey crisis and Argentina. The only exception where this wasn't at the core of the crisis was the East Asia crisis of 1997/8. But basically all the big fiscal and financial economic crises during peace time in world history go back to loose fiscal and tight monetary policy. Combined, these policies can be lethal. It is unsustainable and will inevitably get you into trouble. It's one of the reasons why I'm very worried about the future of the United States.

But that's a separate story. So that was a key lesson. Then, beyond this, we had some very good chapters on local government, which went back to my own roots in urban finance and local government finance. Of course, now there is in fact much more focus on decentralization and local authorities than there was in the 1970s and '80s. We had a good chapter on public expenditure management. Anyway, it was a fairly balanced report. To me, however, the two most important things to learn from the report was the need to balance the right wing and the left wing, if you wish, and find the right middle ground in terms of the role of government and the role of the private sector, but essentially disciplined on the macro-fiscal side if you want to stay out of trouble. So two key lessons. There were a lot of other smaller ones but those were the big lessons.

Let me say one other thing that I feel has been unfortunate, two comments on *WDR* that to some extent draw on my two experiences with *WDR*s. One is that I think it was a mistake that the Bank separated the global chapter--that used to be a chapter to the report, which is now a free standing report--from the main *WDR*. In fact, I think it's great for the institution having the culmination each year of one flagship report. Its global perspective was a huge gain for the *WDR*. The impact that we had when we were able to combine these two, the global perspective of the institution in terms of what happens worldwide and the in-depth familiarity with the contribution in the development sphere, was a great winner. Today we separate those two. I think because the Bank is seen by different audiences as different things: either this development or this global institution. With the comprehensive *WDR* these two things came together. We don't have this anymore; the Bank doesn't have any more that sort of flagship product. That's one comment.

The other comment is that I've argued with the recent chief economists that the model of the *WDR* has gone stale. Basically, I feel while each report contributes something, I really felt even my report, '88, was in a sense repeating things that had been said earlier. And yes, you can bring in new boxes, you can bring some lessons you pick up, one or two. But I don't, I can't read *WDR*s anymore. They are so repetitive. Now maybe there are always new generations of graduate students and young decision makers that you want to reach. But for most people the *WDR*s have become repetitive. Also they've been copied too much. I mean, every multi-lateral development bank, the UNDP [United Nations Development Program], everybody does these reports. They all look alike. They basically say the same thing. But, as a result, the *WDR* now is just one of many and I wish the Bank found a way to create a new flagship that has a new oomph to it, grabs people's attention. I have not had time and no incentive to think about exactly what it would be, but I've argued with chief economists about it. But for reasons, various reasons of their own, I guess, they all decided to stick with the tried and true. Anyway, that's *WDR*s.

BECKER: Okay. I think we've gone two hours.

LINN: Okay.

BECKER: I think this a good place to stop. Next time we'll talk a bit about your experience working with Stanley Fischer and also briefly--three months, my calculations--with [Lawrence H.] Summers as the chief economist and then move on to the vice presidency for Financial Policy and Risk Management and then on to the others.

LINN: Okay.

BECKER: Thank you very much.

LINN: Thank you.

[End Tape 1, Side B]
[Begin Tape 2, Side A]

BECKER: Good morning. This is William Becker with the George Washington University and the Business History Group. And it is Tuesday, April 13, and this is the second of the interviews with Johannes Linn, formerly of the World Bank and currently at the Brookings Institution. So good morning, Mr. Linn. It's very nice to see you again. And this is to take up from where we left off last week.

At the end of the work on the *WDR*, you spent a year as senior economic advisor to Stanley Fischer, the Bank's chief economist and vice president. What was your relationship to Fischer, who after a short tenure at the Bank went back to MIT [Massachusetts Institute of Technology] and later returned to Washington as--I think it was--Deputy Managing Director of the IMF.

LINN: Good morning. First of all, I was so-called senior economic advisor to Stan Fischer, the chief economist and the vice president for development economics. The title is a bit of a misnomer because Stanley Fischer is a much better economist than most of us economists. So advising him on economics was really not my job. My job was to actually advise him on the Bank. And I think that's something he appreciated because he came from the outside, mostly from an academic background. He had to familiarize himself with the bureaucratic and internal politics of the institution. I helped him learn who's who. He came to trust me, I believe, in giving advice on staff and managerial selections. He always told me he thought that was my contribution for him. So I believe it worked very well. We were a very good team together.

Actually, I found being an advisor was in some ways a much harder position than being a manager because as an advisor, particularly for a very smart and demanding person like Fischer –demanding in a professional sense, not demanding in a personal sense, who asked lots of questions—as an advisor, you always have to give immediate answers, while as a manager you can ask people for advice and then think about it and make your decision when you're ready. As an advisor you have to continuously be ready to respond and answer questions, give your best possible response. Of course, sometimes you can also say "Well, I need to check," and so on. But it was an interesting position also because, as an advisor, of course, you don't have any executive functions. You need to negotiate, maneuver on the vice president's behalf, many times

with directors who have their own agendas and at times don't want interference. So it was an interesting, a very interesting position.

It was also interesting for me because in that position I quite often represented Stan at the then-called, I think, President's Council, which was the group of senior managers, senior vice presidents. Stan, as chief economist, usually attended, going over major decisions for the Bank with the president and the others. So when I attended for Stan, I had a chance to see the President's Council operate.

Frankly, it was not a very well-functioning system of decision-making because you had senior vice presidents who basically competed with each other in various overlapping areas. Their staffs and units, realizing this, of course then basically started being very contrary with each other, channeling information vertically to their senior vice presidents so they could fight it out, so to speak, at the President's Council table. At that time, I don't think the president was all that well equipped to actually manage this conflict among his principal "dukes," or whatever you want to call them, or "princes." So it was a rather chaotic and sometimes even unpleasant situation that characterized the institution in those days. It was well known; this is, I think, no secret. Indeed, it was one of the background circumstances against which the new president, Lewis Preston, decided to change the structure of the senior management. He formed a committee, in effect, of Managing Directors without having them at the top of a silo of responsibilities.

Anyway, I went beyond your question, but that was a very interesting time in my experience in the Bank because I got to see a lot of the senior management in action, something I had not seen previously in the same way.

BECKER: In 1990 Fischer made you head of the International Economics Department. What were your responsibilities there?

LINN: The International Economics Department had, as the title says, responsibility for all international global economic research in trade, commodities, global prospects, what is now called the "global prospects" paper. It looks at overall development trends and economic prospects in the world. But also, very importantly, I was responsible for debt data management and debt policy management. This was at the time when debt issues became increasingly important, and the department was in charge of all of the Bank's data work, meaning, socio-economic database management. So it was actually a very big department which needed a lot of tender loving care. It was quite difficult to manage at the time. I was there relatively briefly so I think I only made a dent in it. My successor, D. C. Rao, was an excellent manager who, whatever I was able to start, he continued and, I think, made a real difference subsequently. But it was for me a very important experience because it brought me not only into the international global domain but also into the data management domain.

It was at a time when electronic data management was just starting. It was electronic in the sense that started storing data on CDs. I remember going to a demonstration of the first CD. I'd

never seen a CD in my life, compact disc. The notion that you could store all this data on this little, flat disc that previously had been in books and books and books or on tapes, data tapes or printouts and so on, was quite a remarkable experience. And, of course, I never thought this would work. It was quite fascinating. This was only 15 years ago. So it was interesting.

BECKER: Who was in charge of the technology operation at the Bank?

LINN: Well, the person who was—and still is—over there, managing data, is Shaida Badiee, who has been in that unit and now managing the Bank's socio-economic database-related work for probably going on to 20, 25 years. And she's a terrific person. If you ever want the history of that part of the Bank, Shaida Badiee, B-A-D-I-E-E, is just an outstanding person and I can only highly recommend that you talk to her. Shaida, S-H-A-I-D-A.

BECKER: Okay. Very good.

LINN: She's Iranian.

BECKER: Oh, okay. Did anyone aside from Fischer particularly influence your work/career/thinking at this time?

LINN: Not really. By the way, I should maybe mention that immediately after—but let me step back. This was also sort of an interesting time and an event which maybe didn't show up in anything you saw, but I think for the Bank's history it's very important because again for me it was an important lesson. Maybe I should mention it in connection with the adjustment lending psychology. Immediately after finishing the *WDR* on public finance, I was asked, together with a colleague from IFC, to take over responsibility for completing a report to the Board, a paper to the Board on private sector development. In fact, it was the Bank's first private sector development strategy paper: how the Bank Group would position itself in private sector development. It was interesting because there was quite a lot of competition between the Bank and the IFC in a number of areas, including financial sector lending, how to deal with the Bank's guarantees, et cetera. So there were a lot of interesting operational issues and some fundamental policy issues which were related to the request of the Americans because the IFC capital increase was at stake. And so I was responsible for the preparation of the paper that had to lay out a strategy that was acceptable to the U. S. administration of the day so they would support the IFC capital increase.

We had very tough negotiations with the U.S. Treasury, of which I was indirectly, at least, a part. On the Bank side was Sven Sandstrom, who was at that point the assistant to president, or advisor, I don't remember what his title was [Director, Office of the President], but basically he was the senior most person in the president's office, that is, President Conable's office. And it was a very interesting experience because I saw, as I mentioned I think, last time, the psychology in action of when you are asked to perform as an institution, as an individual, perform in exchange for money being given or withheld, in this case by the U.S. Treasury. And this was under the first Bush administration. The U.S. Treasury at that time was populated with rather

difficult people who didn't make our lives easy by being nice and friendly but were frankly rather demanding and arrogant. So I, you know, I experienced what it's like to be at the receiving end. It was a valuable experience because it's the kind of situation where I think a lot of our clients in the Bank frequently find themselves in negotiating adjustment loans. They have to promise performance in the policy area or institutional reform area for money that is withheld if they don't perform as expected. So that was an interesting interlude.

One more thing that is very important for later on is that Stan very much stressed the importance of a careful and consistent macro-economic analysis in the Bank's economic work in its countries. And I emphasize this because Stan, of course, then later on showed up at the IMF where he was sitting in a different chair, looking at things from the IMF's perspective. I think it's fair to say he had then a different perspective on this. He, in fact, like the IMF, always tended to be rather jealous, became rather jealous of the IMF's prerogative in dealing with macro-economic issues.

One of the examples of the continuing tensions between the Bank and the IMF is when we got into difficult macro-economic and macro-financial situations, as we did of course in Russia, as we did in Turkey, and as we did in other cases where the tension with the IMF over the Bank's capacity to do good macro-economic analysis surfaced. What capacity should it have? And what judgments should it make perhaps independently from the IMF became important.

But it's important to remember that Stan Fischer, when he was at the Bank, stressed the great importance for the Bank to have its own capacity of macro-economic analysis. And in fact, he spent a lot of time himself making sure that the economic reports, the adjustment loans, the country strategies, did in fact have proper macro-economic frameworks.

BECKER: I don't think that's well known.

LINN: Stan Fischer then appointed me the director of the Country Policy Department after a few months as director of the International Economics Department. This, to me, actually was in some ways more at the core of my economic and managerial capacity because that job dealt with all the country policy issues. And also I had a very important role, very often again on behalf of Stan Fischer, in the Bank's Operations Committee. There we reviewed country strategies and adjustment loans. We looked at both macro-economic but also sectoral policy issues which were being researched and where policy advice and operational support was provided by the Country Policy Department. I took that over for about a year, year and a half, I think.

BECKER: No, no, that hadn't showed up. Glad you mentioned it.

LINN: I was only rather briefly director of [the] International Economics Department.

BECKER: Fischer left, after, what was it? About a year or so?

LINN: No, it must have been more like two or three years.

BECKER: Two or three years, okay.

LINN: At least two and a half. I think it was more like three years.

BECKER: Okay. In any case, when Fischer left, he was replaced by Lawrence Summers. Did the office of chief economist change under Summers, and if so, how?

LINN: First of all, I have to say, I was then director of the Country Policy Department. I reported directly to Larry Summers. But I only, if I recall correctly, I overlapped with him for about three or four months, because I was then moved over to finance by Mr. Preston.

The chief economist's office changed somewhat because Larry had, I think, different interests and different strengths relative to Stan. Larry coming out of the—where did he come from?—he came from the Council of Economic Advisors. I'm trying to remember. Anyway, Larry always, from where I saw him, had—even more than Stan—had a strong micro-policy perspective. Stan had more the macro-policy perspective, and he was, to some extent, less interested in the political and political economy dimensions. Larry Summers was much more interested in the hands-on policy issues. And he had his own background in the political domain—he had been also economic advisor to [Michael] Dukakis, I think, during Dukakis' presidential campaign. So he had been in the political domain quite a lot. So Larry was much more interested in the sectoral micro-economic development issues than Stan. But in terms of his, how should I put it, his day-to-day management, I didn't work that closely with him and long enough really to get a good sense from the inside, so to speak, about the way he operated and how he managed.

One thing I learned from Larry, although I'm not sure I learned it well enough, is that he's an extraordinary presenter of ideas. Larry's speeches, for example, are always a work of art, because he managed to not only have important ideas, analytically well founded, but he also managed to present them in a way, with anecdotes, with factoids, carefully interspersed that would always keep the audience's attention. And so you'd have something to take away at the end of his speech. And it's just that Larry's a very impressive intellectual, a sort of projector of intellectual ideas, which I always admired very much. I have to say, he's a very, very impressive person. I then, as I said, I only worked with him relatively briefly and then moved on to finance.

BECKER: Have you had much contact with him since, over the years?

LINN: Not very much. Now I did, when he was at Treasury, I occasionally saw him, especially on the former Soviet Union, but not that much, no. We occasionally have been in touch over the years, with his family also, but not regularly, no.

BECKER: Okay. In mid-1991 you left the chief economist's office to become Vice President for Financial Policy and Risk Management. How did that appointment come about?

LINN: That's a good question. I don't honestly know. I think maybe, it's fair to say, this position was a position not so much requiring financial, narrow financial market and instrumental expertise, but it was always a position that had been held, including my immediate predecessor, by people who had a broader perspective, an institutional perspective, an interest in development policy, and country operational work. It also required people who could work well with donors, because it involved, of course, not just the management of financial policy and risk on the IBRD [International Bank for Reconstruction and Development] side. It also required raising resources and explaining the Bank's performance, particularly to IDA [International Development Association] donors. And so, it needed not just a narrow financial expertise, but it required the broader development and stakeholder outreach and even negotiations expertise.

So with that as background, maybe it's not that surprising that, I believe, Ernie Stern, who was then senior vice president, suggested to Mr. Preston—I assume, because I don't think I knew Mr. Preston personally before then at all well—that he offer me this position. I was very surprised, because when Mr. Preston called me in I thought he wanted to talk to me about something totally different, something operational or whatever. And then, when he asked me, you know, he said "Well, it says here on my list, 'Linn is taking over financial policy'."

I thought he was talking about Lyn Squire, who was a colleague of mine at the time. After I realized he was talking about me, I said, "Oh, well, thank you very much, but please don't forget that really--my heart really is in operations."

And Lew had this way of looking at people when he was surprised. He sort of gave me this look saying, "What is the matter with this guy?" And, "Today I'm offering him a promotion to a vice presidency, and he tells me he wants another job."

But it really came from my heart because ultimately I was very interested in operations, which gets back to the subsequent career step.

But this interlude in finance was, it turned out, an essential part of my, if you wish, my education in the World Bank, because I think too few people in the Bank understand that the World Bank is, in fact, two things. Number one, it's a bank. Apart from being, number two, a development institution, it's a bank, and IDA is a trust fund. And managing the financial side of the house is actually terribly important. The different management requirements of the banking side, of IBRD, and the trust fund side of IDA, are terribly important. I think it's important if one is a senior manager in the institution that one has a reasonable understanding of those aspects. So the five years that I was in this position, I think, were very, very interesting and helpful to me. Challenging, also, because I went in not really understanding a lot of finance, I have to say, and so I had to learn on the fly in a number of areas.

BECKER: What exactly are the responsibilities of this position?

LINN: Well, let me briefly try and explain the position, which doesn't exist anymore. In some ways that's unfortunate, but this is a separate issue. I had two broad responsibilities. First of all,

I was responsible for what we call financial policy and risk management in IBRD. That meant, first of all, that all the policies governing the lending instrumentalities—that's the financial aspects of loans, the currencies, the interest rates, the duration of loans—all had to be set and explained and improved over time. I'll come back to that in a minute for IBRD loans.

Then, of course, managing the financial viability of IBRD as a banking institution involved projecting and monitoring expenditures, revenues, and the repayment patterns of countries. It meant managing the risk of the Bank by analyzing, first of all, how much risk in different countries did we take, what were the appropriate lending ceilings in different countries that conformed with our risk assessment. And how many reserves or how much protection do we need in terms of equity that we were holding, in terms of reserves and provisions that would protect us against non-payment, was an important issue. So these were the kind of questions I worked on for IBRD.

Very important also for IBRD is, of course, the capital contributions by the shareholders. They are important in terms of the financial viability of the institution. If you don't have enough capital, you're constrained in terms of lending, but you may also be seen in the markets as being not sufficiently capitalized to warrant your AAA rating. That gives you the chief access to the financial capacity of the international markets where you borrow your money that you lend to developing countries. Of course, contributions are also important because they determine the voting power of countries. So whenever you have a capital increase or a change in the capital structure, this involves important political issues vis–a-vis the shareholders, both between developing industrial countries, among industrial countries, among developing countries, and so on. It's, of course, related directly to the voting power at the Board. So they are important issues in that regard.

The last point I should mention, which implicitly I have already mentioned, is the very important relation with the financial markets, the underwriters, and also of course the bondholders. Having good relations with the market, being very transparent and maintaining an AAA rating is absolutely essential for having effective and cheap access to international capital markets and maintaining that access. So that's the kind of issues we dealt with for IBRD.

Let me here say very quickly, one very important innovation we introduced during my tenure was to move from a basket of currencies of fixed composition that we would lend to the borrowers in terms of the IBRD loans with an interest rate that was totally unpredictable for the borrower. We actually moved to what we call a single currency loan, which avoids an unpredictable composite interest rate for the borrower and offers either a fixed interest rate that the borrower could lock in or a floating interest rate that was linked directly to a market reference rate, none of which had previously been the case. Now this required a major change in policies, a major change in the Bank's financial operations in terms of how it financed itself and its own risk management. It was very interesting; it was very controversial.

BECKER: It seemed to me to be a controversial subject.

LINN: It was very controversial. It was very much desired by the borrowers. They very much wanted it because it allowed them to hedge, to predict and hedge the risks that they took on borrowing from the World Bank. It was resisted—I think it's fair to say—by Ernie Stern for quite a long time, because he liked the simplicity of the long standing practice of the original composite loan, single composite loan structure. But in the end, I'm glad to say, and I think by now it's widely accepted, that we were able to convince Mr. Stern, Ernie Stern, and Lew Preston that it was, in fact, the right way to go. In fact, this was the beginning of turning the IBRD into more like a proper financial institution that is linked up with a market and provides sophisticated financial instruments to its borrowers that the borrowers could work with more effectively. So, I think, this was a very important aspect of the work we did during those years for IBRD.

On the IDA side, IDA makes, as you know, credits available at zero interest rates, with a small administrative fee. Although the money's repaid—but without interest, to be able to keep lending at steady real levels or increasing real levels—you actually have to go back to the donors every three years to replenish, as it's called, the IDA funds. So a very important part of the job was to prepare and then carry through with these replenishment processes. And it's a very complex negotiation process, because it involves an increasing number of donors—I think, when I was there, about 30 donors, some large, some small. One of my greatest notable successes was actually to convince the government in Botswana to become the first African donor country, which I was very happy about. It was a very small, $5 million contribution for replenishment. But still, the signal value I felt was very important. So anyway, getting sizable, good replenishments was always difficult, particularly in times when there are a lot of exchange rate variations, and when some donor countries had significant fiscal problems, and so on. It was always a battle, and it was quite, quite exciting, difficult and again I think I learned a lot in just how to deal with these difficult negotiations.

By the way, again, of course, the institution is subject to demands by donors for changing its policies, and in a way that may not always be operationally all that easy to actually implement. It may not always be welcome by the recipients. So one has to negotiate, not only with the donors, but also with one's operational counterparts in the institution, and of course, bear in mind how the recipients see the policy positions that are increasingly, and have been increasingly, significant and severe and, one could argue, imposed by or required by the donors.

The other side of the IDA story is, of course, that the financial manager, like myself in this case, is, in a sense, the representative of the donors. Inside the management team I was assuring that the donors' money was effectively utilized. So I would be representing the donor perspective on the policy committee or Operations Committee, making sure that the IDA credits that were being provided to the IDA countries—and our country strategies—were responsive to donor priorities. So I, in that context, got quite involved also with the Bank's operational work by, as I said, reflecting donor priorities and reviewing countries, strategies, and major operations from that perspective.

Okay, how does this reflect the commitments that IDA has made vis-a-vis the donors? Two other issues, very briefly, because I think they're important for this period. One, this was the

time when the Global Environment Facility, the GEF, was actually being put on a permanent institutional footing. GEF got its own standing as an international entity, in fact, with its own governing structure. But it also had its first replenishment, meaning its first replenishment of its financial resources for grants for global environment investments. I was responsible for the first replenishment negotiations, which were quite difficult again. We actually had one meeting in Cartagena, in Colombia, which failed. It was a bit like the recently failed WTO [World Trade Organization] Cancun meeting where everybody went in with great expectations. But then, at the end, we had to basically declare failure. It was my job to deal with the financial issues, while my colleague, Mohamed [T.] El-Ashry, who was co-chairing the negotiations, dealt with the governance and the policy issues on the environmental side. And actually we were a great team. I admired him greatly. He is also now retired. But it was, again, a very interesting experience in how do you negotiate the sort of a major replenishment and global organizational innovation.

In fact there was this wonderful little anecdote that I want to briefly mention. It was in one of the early meetings with the donors, the GEF donors, in Rome. We were sitting in this beautiful big hall, probably built in the Renaissance, made available by the Ministry of Finance of Italy. And we got very much hung up around the negotiating table about the total sum that we should aim for, and some way or other the goal of 2 billion SDRs, Special Drawing Rights—which is an accounting concept the IMF uses, a bundle of currencies—had been fixed in people's minds. This was particularly important for the ones who wanted a high replenishment, the recipient countries. Now, it was very clear that a number of the big donor countries, especially the U.S. and probably the Germans and others, simply weren't going to be able or willing to do this. They simply weren't going to be willing or able to support SDR 2 billion. It wasn't realistic. But the other side was very much gung ho. The two billion was the number they wanted.

So I don't know how it happened, but towards the end of the meeting, the first day, I sort of had this brain wave, and it was really a spur of the moment kind of thing. We had not discussed it. I decided I would switch from SDRs to dollars for the total number, from SDR 2 billion, to 2 billion dollars. Of course, 2 billion dollars was about 20, 30 percent less in value than SDR 2 billion. But, somehow, this number, because it was still two billion, it didn't create a great stir. In closing the afternoon's meeting I said, "I think we ought to aim for 2 billion dollars." Some people heard two billion, some people heard dollars. We had had a long day. Everyone walked out and said "Where did you come up with this?" but no one really complained.

So the next morning as I started off the second and last day's meeting, I said "Okay, well, I think it would be a good idea if we aimed for 2 billion dollars. Any concerns?" And amazingly enough, I don't know why, no one objected. It was a very strange psychology. I guess it was an example of face-saving, since it gave the people who wanted the SDR 2 billion, realizing themselves it wasn't realistic, something to hold on to, namely the two billion. And it got them a branch to climb down from an unrealistic place. The others for whom 2 billion dollars was probably also a bit on the high side realized, "Okay, well, this is not a bad number. Two billion, in any case it is a nice round number, let's stretch for it." So it was a very strange little vignette of how these negotiations work and how sometimes you don't plan them but then in the end, they

work out. So we got 2 billion dollars in the end, even though there was this almost fatal meeting in Cartagena, which in itself is a long story.

We recovered from that, and we had back here in Washington a last meeting. This must have been 1993, I believe, or 1994. And we succeeded in getting the GEF replenished and put on a permanent footing which, I believe, was quite important.

One last point--I'm sorry to keep going for so long.

BECKER: It’s okay. You're ticking off the points I have here anyway.

LINN: The last point in terms of important initiatives that started in those days is the HIPC Initiative.

BECKER: HIPC.

LINN: HIPC. Heavily Indebted . .

BECKER: . . Poor Countries.

LINN: Poor Countries, right. Heavily Indebted Poor Countries initiative. It started really in the late ‘80s, building to a crescendo in the early ‘90s. And I was in the middle of this on the financial side. The whole question of "Is the debt sustainable?" carried by developing countries, the poor developing countries.

By way of background, one has to realize that it was actually the Bank itself which contributed quite heavily to put this issue on the table. In fact, the Bank in the late 1980s, through its own debt work, began to characterize countries in terms of this categorization of low-indebted, highly-indebted, medium-indebted countries. In fact, when I was director of the International Economics Department, for nine months or so, we issued a report—in 1990, I guess—that precisely began this categorization. We actually began to lay out criteria for indicating which countries faced a non-sustainable debt situation.

So the Bank itself actually had put the issue on the table. Then a lot of NGOs picked it up, particularly advocacy NGOs in northern countries. They started pushing the Bank and the donor countries to take this issue seriously. For a long time, the Bank—and this was now in my position on the finance side—resisted this very strongly. First of all, the argument was that IDA is already highly subsidized and highly concessional. Seventy percent of IDA grants are actually the equivalent of grants, so really IDA funding ought to be able to take care of the problem.

Secondly, there was a very great fear that if the Bank got into a debt forgiveness mode, that it would taint all its financial standing and would actually undermine its AAA ratings. There was also a fear that the reserves that the IBRD holds, which are necessary to underpin its long-term credit ratings and standing in the markets, would be raided to finance some of the debt write-offs.

All of this the financial managers—Ernie Stern, and myself also very much included—felt was very, very risky, so for a very long time we basically resisted any idea of outright debt forgiveness, particularly debt forgiveness that would be in one way or another on the Bank's own and IDA's own books. There were various instruments that one tried to develop, aside from IDA, of partial and limited debt or debt service forgiveness. That involved trust funds or involved more IDA being provided to countries, for example, that had high IBRD debts, so one would to some extent help them offset their IDA, their IBRD debt service. So there were actually limited efforts to try and help, through particular limited instruments, particular classes of highly-indebted countries. But there was no universal solution to the problem of high indebtedness, in particular the growing of indebtedness towards the international financial institutions.

However, then Mr. Wolfensohn became Bank president. Mr. Wolfensohn, coming more from a financial background, holding a financial market perspective—in a sense the traditional banking perspective—looked to the World Bank, I think, more as a traditional bank. He had the view that if you have a bad debt, you need to think about writing it off and taking a hit. So he came in with this particular perspective and kept on pushing us and saying, “Wait a minute.” Early on, he went to visit the highly-indebted countries. He heard a lot of complaints about debt in the countries, and he heard a lot from the NGOs. Increasingly, he pushed us in the finance side, but also in the debt division [International Finance Division] in the International Economics Department. The department was then run by Massood Ahmed, with whom I worked very closely. Mr. Wolfensohn kept pushing us, and so I remember that Masood Ahmed and I were getting quite desperate. We recognized, on the one side, the hard financial view that the institution had carried—and which to some extent Mr. Stern still carried, by the way. And on the other side, we understood the need to respond both to the outside pressures to the needs of the countries as well as to Mr. Wolfensohn's insistence that we needed to address this issue.

We hired a very good technical expert, the name of whom escapes me now, who came up with this proposal that is now in reality, namely the HIPC proposal. It's a very ingenious way of, on the one side, protecting the Bank's financial—particularly IBRD's own financial basis, and its promise to stock and bondholders not to reschedule its own debt, to protect that, and yet to find ways of making resources available from the Bank's net income—that's its profits—and by drawing on grant contributions from donors. This is, in principle, designed to make available a large enough sum of money to pay off, or retire, the debt of the poorest countries. And this is what the HIPC initiative became.

I remember well, Massood and myself, one evening while crossing Pennsylvania Avenue, we said to each other, "Look, we've really got to run with this proposal." It was at that point still a technical proposal, basically internal to our units. We had not yet, I think, shown it to Mr. Wolfensohn. So we decided, “Okay, this is it. We're going take this to Mr. Wolfensohn, we're going to try and make this work. We have to try and then sell it, of course, to the donors.”

Subsequently, I remember a meeting with Stan Fischer, where we then had to sell it to the IMF. Initially, Stan was very critical of it. He was like Ernie Stern, whom I met subsequently, after he had retired from the Bank. Stern said, "Hey, you guys, you're going down a very slippery path here. Very dangerous. Very risky." Everybody was worried stiff, and not without justification, that this particular debt write-off would open the gates, that there would be continuous pressures for not honoring official debts. All debts could be affected, bilateral or debts to multi-lateral institutions, whether by highly-indebted—the poor countries, or by middle income countries. This would include countries not so highly-indebted, countries able to pay their bill. Basically the whole discipline of the international official credit system would break down. That was a very, very deep fear. That is why, in then further developing the HIPC model, one continuously had to worry about this. And a lot of the tensions that you saw throughout the HIPC implementation, still ongoing today, are that you want to be sure the ring-fence stays around the HIPC group of countries, that you do not draw on the reserves and the financial capital of the IBRD. The latter is so essential to the IBRD's own standing in the markets and its ability to keep on functioning as a AAA institution and to protect, of course, IDA's ability to finance itself, re-finance itself, partly from its re-flows. So it's a very complex system, very difficult.

I have to say, looking back now, that Mr. Wolfensohn had it exactly right. He didn't just say, "Hey, guys, you know, I want you to do X, Y and Z, and you go and you use Bank's reserves or whatever." He knew—I guess as a financier—well enough that that was not viable. He also is, however, a politically very savvy person, and somebody who knows as a financial expert that in the end you can't squeeze something from nothing. He realized that we had to find a solution, so he got very involved in the details of managing also the politics of this process. It's a process that hasn't run its course yet because it is still in debate, but I think the fact that we were able back in 1995 to start the process going was to me again very interesting and challenging and rewarding. Since it ended up as a paradigm shift in the institution, HIPC was good for the long term survival of the institution in a political environment that was, of course, getting increasingly difficult with anti-globalization protests, the “50 Years is Enough,” and so on. Having had HIPC, I think, was a very important instrument for the institution, not only in helping its poorest clients, indebted clients, but also in fact maintaining its international credibility.

BECKER: Okay. Good. Can I ask, as a manager, how large a staff did you, did this vice presidency have?

LINN: It was very small. It was about 40 staff, two departments. I was very lucky, because I had two excellent directors. Basil [G.] Kavalsky was there when I came. He was in charge of IDA. He was later replaced by Paula Donovan, whom I hired. And on the financial side, I'm trying to remember, I think there was actually only an acting director when I came in. But then, I brought in Mieko Nishimizu, who later moved on to become vice president for the South Asia Region. I brought her in as director on the financial policy IBRD side. So we had a great team of very good women directors. In fact, I was very pleased that around my management table of two directors and four division chiefs, more than half of us were women.

BECKER: After several years as VP, that is, mid- to late 1995, you were offered a position as chief economist at CitiBank. How did that offer come about?

LINN: Actually, I was contacted by a headhunter, who on behalf of CitiBank was, I guess, scanning the market, and somehow had heard about me. I had no idea how. So, at that point, I'd been in the Bank about 23, 24 years. I felt, well, something outside the institution might be good. I was about 52, 53 years old. It would be probably the last time I would get into a major outside private sector position. A private sector appointment seemed like an interesting alternative to what I'd been doing all my life. CitiBank, New York, was very interesting and attractive. Interestingly enough, the financial offer that they finally came up with was actually not that attractive, at least in the short term. I actually had to do quite a bit of negotiations. In the end, there was a stock option, which after five years would have kicked in, and I have never gone back to try and figure out whether I would have been a rich man or not. Of course, then CitiBank went through its merger with the insurance company and is now Citicorp. I don't know what would have happened to me during that transition. But it was an interesting experience, and I was basically ready to leave, ready to agree to a contract, but then, Mr. Wolfensohn one day called me in to say, "Johannes, I'd like you to stay. I'd like you to take on the ECA [Europe and Central Asia] Region."

BECKER: I was going to ask you whether he knew.

LINN: Yeah, he knew. I consulted, in fact, with him fairly early on. I even asked his advice. But he then came back at the last moment, because Wilfried Thalwitz had announced his retirement as of the end of the year. He asked me whether I'd be willing to take it. He also then said, "Well you go off and you spend a few weeks and get yourself management training." He already had this in his ideas. It was an important part of Mr. Wolfensohn's agenda that he wanted his senior managers properly trained as managers. So he immediately said, "You can take your wife and you take a good break. We'll get you some really good management training, the best business schools," and so on.

To me, then, this was the option of taking on what in a way I always wanted; namely, having a senior operational responsibility in the Bank, especially in the region of Europe and Central Asia. For me, as a European, growing up after the war with the Iron Curtain, the Berlin Wall, there had always been this *terra incognita*, this forbidden land, so to speak, the big red blob on the map. And being able to get into this, be part of the process of re-integrating, helping rebuild, it just seemed like a wonderful challenge to me, personally. So when he offered me this, I really couldn't resist.

Then I had to tell Citibank. And it was a bit hard because they had, I think, counted on my accepting the offer. Basically, we were very close, and I had not given them previously any indication that I had any doubts. So then, in the end, turning CitiBank down was quite painful. But for me, I think it was the right decision and so, as of January 1, 1996, I joined the Europe and Central Asia Region as the regional vice president.

BECKER: At that time, had you given much thought to the transitional economies?

LINN: Yes and no. Well, from the financial perspective, of course, the lending by the IBRD—in particular to Russia—expanded quite rapidly in the early years, also to Central Europe. In fact, in the early years the World Bank made larger loans to Poland, to Hungary and so on, than it did to Russia, Ukraine and the other countries in the region. So from a financial risk management perspective, actually I had followed quite closely—as did my staff in the finance complex—the developments in the former Soviet Union and in Central Europe.

I remember at one point in the early '90s—this must have been 1993, 1994—we had in one of our regular risk management reports to Mr. Preston and the managing directors gone into quite a lot of detail analyzing the situation in Russia at that time. And, as I recall, we made rather cautionary notes about not expanding too fast. And, by the way, the Bank at that point was of course under a lot of pressure, not just from the U.S. but also the Europeans, to rapidly ramp up to be a major partner in this effort to try and support President [Boris N.] Yeltsin in his early years. So the Bank was under a lot of pressure from the outside.

We in the finance complex, of course, saw that and tried to countervail and call for caution. Probably from where I later sat we were overly conservative in our assessment. And indeed, that's when we were told by Ernie Stern and by Lew Preston that it was not our job to get into so much detail on the Russian situation and that that was the job of the Region. So we were to do aggregate risk assessment but not very detailed country policy analysis, and so on. I also had been involved when I was still with Stan Fischer, actually, as his senior economic advisor. I think it must have been 1990. When the systemic collapse of the communist system became evident, starting in Central Europe and Germany, which ultimately led to the disintegration of the Soviet Union, I remember we organized a seminar. It was the first seminar of Sovietologists and post-socialism experts—the first time that the Bank actually ever really got into this. Now the Bank had of course assisted China, but China was a very special and isolated case in many ways, for the Bank. And the lessons were actually quite limited, as it turns out, for Central and Eastern Europe. So, this was my background.

But, to be honest, going into the job of vice president of Europe and Central Asia, I actually had very little experience, either, of how to manage a large group, because in those days the staff was probably around 800, 900 people. So it was a large staff. I'd never managed such a large group. The International Economics Department had about 150 people. So it wasn't, you know, that I had not managed larger groups before, but never such a large group. My operational experience was limited in the sense that I'd been an economist in East Asia, Thailand, for a number of years, but I'd never actually managed projects hands-on, except for adjustment loans in Thailand. So, you know, for me personally it was quite a challenge. I think Mr. Wolfensohn was a very courageous man in offering me this position. But for me—personally, anyway--it turned out to be a very worthwhile effort, a very worthwhile period.

BECKER: What were your immediate and also your medium-term priorities for ECA, organizationally and operationally, as you came into the post?

LINN: Let me start with the organizational part of it, because that actually became, relatively quickly, quite an important part of the agenda. And maybe to some extent that crowded out, in the early year or two years, some of the operational concerns that maybe should have been more in the forefront. I'll come back to that. Remind me if I forget about Russia and privatization.

On the organizational front, I forgot to mention that in 1995, after Mr. Wolfensohn came in, he decided fairly soon to establish two working groups to review the Bank's organizational set up and management practices. I was selected to co-chair one of the working groups, together with Russ [Russell J.] Cheetham. The other working group was chaired by Caio Koch-Weser and Jean-Francois Rischard. The two groups initially worked in parallel, but were continuously co-operating and coordinating under the leadership not so much of Mr. Wolfensohn, but of an overall steering group. But I don't actually remember how the two groups were coordinated. It's an interesting question. I'll look at this at some point. Anyway, we came up with in a sense a blueprint of reforms for Mr. Wolfensohn. There were many proposals for organizational changes that came mostly out of the other working group, which proposed the essence of a new matrix structure. There was also a lot of discussion of managerial training and so on. A whole lot of recommendations.

BECKER: Human resources?

LINN: Human resource management. Introduction of values. 360 degree feedback was an idea; it was sort of born for the institution as a recommendation. I remember we went and briefed Mr. Wolfensohn on the proposals in November, I think. We actually went up to New York and briefed him there in the office of his old company, where he still was able to meet with people when he was in New York.

The basic framework of the reorganizational blueprint that we came up with was a solution to a number of problems. In a nutshell, the problems had to do with the fact that in the old system of country departments you had a fragmentation of technical staff across the various departments. So you had no real critical mass. You had no cohesion, for example, for transport experts or education experts. In the Region ECA, which I joined in January, there were four country departments. You had three or four education experts in each country department, but they didn't talk to each other across departments. They didn't talk to each other Bank-wide. There was a very weak network across the Bank. So we had the problem that there was no effective support for and networking of technical expertise. There was no training, there were no good standards of performance, of promotion, and so on for technical experts. So the technical capacity of the Bank's core work in the various technical areas was very much diffused. We were losing the edge as an institution.

So the solution was the network idea of the matrix, which meant creating larger central units within Regions, supported by central networks and thematic networks across the Bank. The whole idea was to strengthen and revive the technical expertise and strength of the institution, and hold it to standards of quality. At the same time, our proposal was that you needed to

strengthen the country focus and the strategic ability of the institution to manage the country's strategies by having greater focus on individual countries. Previously, these country departments, when they included smaller countries, had maybe 10, 15 countries that a director was responsible for. In the end, that meant that no director really focused on individual countries and we didn't have effective country strategies. We did not have country budgets, for example. So you never knew how much administrative budget money we actually were spending in individual countries. So the object was finding a way to both have stronger technical capacity and a stronger country focus.

We put the matrix idea on the table as a blueprint Bank-wide, for a Bank-wide approach. In addition, there were a number of improvements that I mentioned in human resource management, professionalizing the management team in many different ways. So we made the recommendations, and Mr. Wolfensohn seemed to be very interested in this. But I guess because he was at the same time also going through the process of actually re-jiggering his management team—there were retirements among managing directors and a number of vice presidents—he did not move right away. So it seemed to us, who'd been in this working group, that our proposals were sitting on the fence.

Well, then came January 1996. I was appointed as new VP for ECA, and I think there were a couple VP appointments also for the Africa Region: Callisto [E.] Madavo and Jean-Louis Sarbib were appointed for the Africa Region as vice presidents at that time. Shortly after that—I think it was in February and March—the new team of managing directors was appointed, Caio Koch-Weser and Gautam Kaji.

We were then encouraged--but it was not yet a Bank-wide direction--to start experimenting and developing our own Region-specific reform agendas. So when I started in 1996, I had in my baggage, if you wish, in my memory bank, a set of proposals that we'd come up with for Bank-wide application. I had my own ideas about how a region ought to be organized. Around May, the process started for ECA. I started putting in place, for the Region and strictly for the Region, a process of organizational and managerial renewal, as we called it. We didn't call it reorganization, as in previous cases. It was to basically kick in and be implemented as of the beginning of fiscal year 1998; namely, as of July 1997. So I gave myself, I gave us, a long lead time. During that summer, I also went off and did my management training at Stanford, which had its own—to me personally—very important lessons.

In the meantime, we had set up Regional staff working groups to prepare the ground. We used the earlier Bank-wide working group's blueprint--not slavishly, but we used the blueprint. It was very useful for me, as a manager, coming in so we didn't have to sort of reinvent the wheel from scratch, so to speak. When I then came back, in September 1996, we then pushed the agenda forward. At the same time, by the way, Africa was ahead with a somewhat similar process of renewal, also using a . .

BECKER: Network?

LINN: Yeah, a matrix approach. Latin America had also already started with a partial approach. So there were various experiments going on in three Regions. Three other Regions, MENA [Middle East and North Africa], South Asia, and East Asia, did not do any of this at all. That was surprising, because Russ Cheetham, the co-chair of my earlier Bank-wide working group, was vice president in East Asia. He decided he did not want to push forward with this. He then was replaced a year later by another colleague, Jean-Michel Severino. I had brought him into ECA from France a few months earlier as a country director. He had become part of the ECA renewal process and as a new VP for East Asia was told more or less to push forward.

Anyway, by early 1997 it became apparent, I think, to the managing directors and Mr. Wolfensohn that this sort of ad hoc decentralized free-for-all, where every Region was basically going its own way, had to be pulled together. It had to be made consistent for the institution as a whole. So rather quickly, as I remember, in the first half of 1997 what had basically been a bottom-up, rather entrepreneurial approach in three Regions of implementing some of the ideas that had been put on the table in 1995 were then pulled together by Caio Koch-Weser and Gautam Kaji, as Managing Directors on behalf of Mr. Wolfensohn, into a consistent framework of organizational change. That created, of course, the central counterparts of the matrix, what is now called the networks, with their central anchor units and so on. So a number of reorganizations happened so that we ended up, as of July 1, 1997, with some anomalies, differences, across Regions, but with a fairly consistent new organizational structure, a new management structure.

The interesting part of this process was that it was not just a reorganization; it was also a change in managerial approaches and institutional values, and this was, for me, very important. In the ECA, in particular, our specific initiative involved a deliberate change also of values, of managerial approaches. So it wasn't just organizational, it was also how we managed people, the values under which we operate, and so on. It was somewhat in contra-distinction to the 1987 reorganization, which really was only a reorganization.

BECKER: Right, a top-down one, too.

LINN: Well, 1987 was top-down; it was really focusing on moving around organizational boxes and structures, and so on. What we did—learning to some extent, all of us, Caio Koch-Weser, Gautam Kaji, myself, Jean-Francois Rischard, all of us, and very much supported by Mr. Wolfensohn—we realized it wasn't just a matter of boxes. It was very much a matter of values, of managerial practices, of incentives, and so on, that you had to worry about. So this was a very important part.

The other important part in ECA, which was to me very helpful, was that, different from some of the other Regions, the process had become endogenously driven by the staff, or at least a number of staff and a number of the managers inside ECA. So by the time we actually implemented the change in 1997, it wasn't something that was brought from the outside, imposed, but it was generated to a significant extent from the inside. That didn't mean that everybody agreed with it. On the contrary, there were some people who clearly didn't agree with it, also inside ECA. Not

everybody was involved in the process, of course. And maybe not everybody understood, or cared to understand, what we were trying to do.

At the same time, we were very lucky in ECA in that regard, because the other three Regions that had not gone through this bottom-up process—as did Latin America Region, Africa Region, and our Region—they had a much harder time, because the change then in 1997 had to be pushed through very quickly by new vice presidents, Jean-Michel Severino, Mieko Nishimizu and Kemal Dervis. They had to do this very quickly and almost overnight. And of course, again, there was a fair amount of resistance of their managers and staff, so I think we were in that sense very lucky.

There's one other aspect--and to me personally very, very painful--but one other aspect that this involved. Different from the 1987 reorganization, and learning from that reorganization, as I mentioned in our last session, in 1997 the decision was made Bank-wide that the staff would be given, in effect, a guarantee of continued employment. So staff was moved around and quite a few felt unsettled for a little while, but their jobs were always safe. That, of course, made it a lot easier in contrast to 1987 where staff faced this cascading-down process that I described last time. Staff was very insecure for quite an extended period, and didn't know whether they would have a job at the end of the process.

While we treated staff in 1997 in a way that made them feel secure, we treated the managers differently. In 1997 every manager, directors and division chiefs, in the old structure were told that they had to compete for new managerial jobs. And it was clear that if they did not succeed in getting new managerial jobs in the new structure, they would have to find other jobs, or they would have to be declared redundant. So the process of going through this selection and de-selection of managers was extremely painful. It was painful for the people affected by it. It created for them, of course, the same kind of insecurity and upheaval that all the staff had been under in 1987. For the selecting manager, like myself, dealing with some managers who realized along the way that they were not going to be given managerial positions became extremely painful. I have to say that this became one of the most unenjoyable, painful jobs I ever had. And I frankly didn't want to ever go through it again if I could avoid it. I had to deal with a total of about 40 managers in this process.

BECKER: I was going to ask how many.

LINN: Probably around 40 people, with whom I had to go one by one through this process of first telling them, "You are no longer assured of a job as a manager or, for that matter, any job at all." And secondly, we then proceeded with the process of actual selection, which meant for a number of managers a de-selection, in fact. So it was very painful. But I think it did achieve part of the goal, which was of course a managerial renewal. I think it created the basis for a team that I have to say over the years has been an extraordinarily strong team for me and, from my perspective, for the Region very cohesive. A very, very effective team and a very open, very open team. All of this was part of the renewal process Bank-wide, and went back to the 1995 proposal that we put to Mr. Wolfensohn.

It was also a much more transparent and competitive process of managerial selection that was introduced then. Starting then we introduced the practice—over time it became more transparent, more institutionalized and was improved further—that managers weren't selected purely because the selecting manager decided so-and-so was a good person, or his friend or her friend or whatever, but a manager was selected through a process of short-listing, a process of peer review, a process of reviewing their 360's, their interviews and so on. So a much more systematic and transparent process of selecting managers that started then and became more systematized over the years since then.

BECKER: What then did you learn from your seven weeks at Stanford?

LINN: It was the Stanford Executive Program, SEP.

Well, first of all, I concluded that management science, if that's what it's called, is actually not science at all. It's more like anthropology. A lot of fads based on extrapolating from individual cases and employing, at the most, a very simplistic analytical tool of a two-by-two matrix. Beyond that I was struck by how little econometric or statistical research tools are being utilized. I remember being in a marketing class, and the issue under discussion was appliance warranties, dealing with such questions as should you offer what kind of warranties for what kind of products. Is it a good thing or a bad thing for the producer to have warranties and so on. So at one point I asked the question, "Do we know how do people behave when they buy a warranty or not buy warranty, what kind of warranty? Has any econometric or statistical research been done about how people react to different warranties? And then of course, drawing from that, what would you expect in terms of market response for offering or not offering warranties?" The response of [the] professor to me was totally incomprehensible. He said, basically, "Why should you do any such analysis?" Basically, the notion that you do statistical research on this issue seemed to him so remote that he basically ruled it out of court as a question. It was very striking. Anyway, so I came away with a healthy disrespect of management science, which is good because then at least you approach gurus and big names with some caution. But that was only one lesson.

The other lesson, much more importantly, was that many of the problems that I'd seen over the years in the World Bank as a large institution, bureaucratic institution, in regard to management, strategy, organization, and what have you, were similar in all bigger, larger institutions, whether public or private. And so, in that sense, the Bank was not an unusual animal. This was very helpful in countering my skepticism that had built up over the years when, like other staff and managers in the Bank, I had always been looking inside, always thinking why we couldn't ever get it right, and the sense that we always have to reorganize, we always have to change, and, my God, there must be something wrong with us. In Stanford I realized that this is simply not the right way to look at it, and the notion that institutional change is something that happens only once and then has to be permanent--I realized that every so often you have to shake up an institution. That in itself is valuable for various reasons. I also recognized the importance of strategic vision and institutional values, and the importance of how you actually bring along the

staff so that change is not just top-down but it's also very much bottom-up, that you have to merge these two perspectives.

These ideas became to me very important inputs then and an encouragement, an empowerment in a way, for the reorganization when that took place in ECA. I also took away the encouragement of leadership; in other words, the notion that there are times when leadership matters, despite what I just said about the importance of bottom-up, that in fact there are times when it's necessary to step out and lead and speak with the power of conviction, even if you have questions in your own mind about whether it's 100 percent right. That you need to jump across hurdles, and you need to get on with business and act as a leader. That you need to communicate--and relentlessly communicate--the messages that you have. That you need to stay in touch with staff using modern technology and communications as best as possible. That you need to continue to change the way you communicate to keep people interested and, in a way, surprise them, and out of the surprise make sure they keep listening.

Those were some of the ideas I came back with. And those were, I think, in many ways, lasting ideas that have nothing to do with the specific courses that were taught at Stanford, but more with the spirit that you absorb as you read a lot of cases, as you listen to some very good professors, some not so good professors. It's fascinating.

I thought the third, third, third rule prevailed. I mean, as you'll find a lot of places, a third of the courses and professors at Stanford were very good, a third was okay, and a third was just terrible. And I thought, "Now for a great place like the business school at Stanford, it's strange to find that same rule applies."

BECKER: I think that it's true everywhere.

LINN: Now, maybe, just let me conclude the picture. On the reorganization, the renewal that we went through in ECA, of course it took some time for it to fall into place. At the same time, we also had a number of other things that happened in the institution, such as the transition out of long-term consultancies. I don't know whether you're aware that the possibility of hiring long-term consultants was done away with, which basically meant they had to go. That was a painful process: basically, selecting a pretty large number of staff in operations either into regular positions from long-term consulting positions or letting them go. That was a big upheaval in the institution.

And there were budget problems. Mr. Wolfensohn, when he came in, had a compact with the Board that gave him a temporary budget increase which then had to be taken back after three years, which meant the appearance, anyway, of a budget reduction, because everybody after three years had operated at a higher level. Therefore, some very painful processes of budget reduction had to be implemented, so staff morale for two or three years after the 1997 renewal, reorganization, was generally pretty poor. And so we were struggling as a management team internally, we continued struggling with that problem.

Of course, there were a number of issues also in the way the matrix worked. There were transitions in the senior management team over the years. So it was never a quiet moment even organizationally. But overall, my sense is, my personal sense is that the matrix is the right way to manage a complex structure like ours. There was much improvement in the way the country strategies were formulated; there was much improvement in the technical area. The quality of the product, I think, has also measurably improved.

This was one of the big issues when Mr Wolfensohn came in. It was my biggest issue when I joined ECA. In my first meeting with staff, I said, "When I leave, I want our quality, the measured quality of our product to be the best." And it was something close to it when I left recently, so I was very pleased with that.

We also had problems in the organizational set up. The matrix is complex. It is very expensive in terms of management time. And to some extent, you have to watch out not to get into endless loops in the matrix in terms of decisions not being taken because you may have too many people in the kitchen on any decision, so finding ways to kick up decisions, to make short cuts when the short cut is an appropriate, necessary decision. So many questions remained when I left, but overall I came away thinking this was, from my perspective, the best way of organizing the Bank's business.

BECKER: What facilitated this? It seems to me that what made this network or matrix organization possible was advances in IT [information technology], I mean, in terms of communication. Do you see this as being a critical variable?

LINN: It's an important variable, which reminds me, incidentally, of another dimension which I haven't mentioned, but which was very important also during that period, a tremendous transition in the institution in parallel with the matrix structure: the de-centralization of operational staff into countries. We not only decentralized our country directors but also built up our country offices, with many more national staff being hired as technical experts. We also placed more international technical staff in the field. So, in fact, a lot of the work is now no longer handled by headquarters-based or exclusively handled by headquarters-based teams. Much of economic and sector work, and increasingly even project supervision and preparation work, is handled from country offices very close to the client. Therefore the Bank has been getting away from what was a very headquarters-, Washington-based institutional culture. So this was a tremendous change.

When I joined the Region in '96, there were probably about 25, 30 percent of the staff were country-based, decentralized. When I left, just over half of the staff in the Region were country-based as against based in Washington. We opened up offices in virtually every country. Out of eight country directors, six were in country. If I had had my druthers, which for various reasons was impossible, they would have all been there. What a tremendous change.

Now, what made decentralization and the complex matrix structure possible was electronic communication, especially emails. This was absolutely essential. Of course, phones were also very important. And increasingly, video conferencing, which was Mr. Wolfensohn's personal

hobby horse. Initially, all of us were somewhat doubtful about it. But, it turns out, video conferencing was just a life saver, because it really does help communications and, to some extent, it cuts down on travel. But in any case it makes communication a lot easier. My office, in the H building on the 12th floor, was right next to the principal office for video conferencing. Increasingly, that office became very busy, you could see through the glass walls. Very frequently there were video conferences with the country offices. So this became an essential and a very useful instrument.

BECKER: I'd like to turn to the operational issues.

[End Tape 2, Side A]
[Begin Tape 2, Side B]

BECKER: Let's, if we may, turn to the operational issues that you first dealt with. The question originally was what were your immediate and medium-term priorities for ECA organizationally, and discuss that, now operationally.

LINN: Operationally, I have to say, coming in, a very generic, general priority was the quality of our projects and analytical work. It actually went back to Mr. Wolfensohn's own priority, because when he came in, he was very concerned about the perception and reality of declines in the measured and perceived quality of the World Bank's lending, in particular lending, but going back to what I said earlier, analytical and technical work, too. So improving the quality led on the one hand to the organizational changes in ECA and Bank-wide, but, on the other hand, it also meant a lot of attention to making sure that the quality review and management processes we had were in fact properly utilized. And just making quality an overarching goal in itself, rather than quantity of lending in particular, this became a mantra that I carried around with me.

Beyond that, though, given that I didn't know the Region very well substantively, I really had no priors about what sectorally, thematically was the most important. It's probably fair to say in the first year, even maybe two years, I was in a learning mode, trying to figure out where in fact were the important issues, how they differed by sub-region, by countries and so on.

Now, of course, when you get in a position like this, the momentum of the day takes over. Some immediate priorities, operational priorities became very apparent. First of all, the most immediate one was the situation in Bosnia and the Balkans, but it was really Bosnia. I came to ECA a month or two after the Dayton Agreement, which I think was in November, December of 1995; we were just able to send the first mission to Bosnia. Now, there was a bit of a lag in my actually personally getting directly involved because Kemal Dervis was then still the director of the country department in the ECA Region in charge of the Bosnia work. Kemal Dervis actually maintained responsibility for Bosnia for about three or four months, at least through the first donor meeting for Bosnia. He then moved to Middle East and North Africa Region, MENA, as the vice president around May 1996. He then handed off responsibility to me, and I became very involved in the donor coordination and mobilization process, in making sure the donors' emergency response was effective. It was a very big program that very quickly was developed,

and that had to be properly implemented on the ground. I traveled to Bosnia very early; I think it was in March or April of '96. The security was, by that time, all right. But it was still very early on, a lot of war damage was still very visible. So, Bosnia, the Balkans was one immediate, major, major matter.

The other one was Russia. At that point in 1996, Yeltsin was gearing up for re-election. We didn't have terribly good relations with Russia at the time. We had little access to, for example, the Ministry of Finance; we had virtually no access, at least on my level, to other ministers or deputy prime ministers. So building up access and our program in Russia was a major problem. We also had an operations portfolio that was large but filled with quality problems: projects just didn't disburse, or were rated as poorly performing. There were problems with policy and institutional implementation, and so on. So I worked with a new resident representative, Michael [F.]Carter, who later became country director, and with the then director of the country program, Yukon Huang, who later became country director for China, to try and get a hold of the Russia program, both the quality but then also the dialogue, raising our ability to deal with key ministers and so on.

Central Europe was still not as settled as it is, in a sense, today. We had a large program in Hungary and an important program in Poland. Dealing with those two major reform agendas, getting on top of and understanding them and making visits to the countries and promoting the reform agenda became a very important part of the job.

But looking back now, I think--my impression now, at least--is that I was quite heavily focused on the internal reorganizational objective, partly because, of course, I spent the summer out of commission focusing on my own managerial training. The first year was probably, from the substantive operational point of view, not as intensive. It was a learning process, in terms of my contribution to sort out strategic directions and substantive decisions, but it was probably not as effective as it could have been had I come in with much more prior background, which is an interesting question to ask oneself.

When I was replaced, on leaving, by my successor, of course we had a situation where he had been the number two in the Region; he knew the Region inside out. He immediately concentrated on substantive, strategic issues with a lot of continuity. Now, when I came in 1996 there was continuity within the Region because the directors stayed the same for a year and a half, so it wasn't as if there was some huge, some huge gap. But there was one particular case where, with the benefit of hindsight, I realized if I'd been more experienced I might have been able to--not change history, but at least change the Bank's visible position on an important part of history in Russia. And that was the so-called loans–for-share privatization experience. It started in 1995 when, under the then Deputy Prime Minister [Anatoly Borisovich] Chubais, a lot of so-called oligarchs, in exchange for loans to the government, were pledged assets of major natural resources, oil companies, nickel factories, and a number of other big enterprises. The government promised to repay the loans, but if they weren't repaid, then these assets were going to go as collateral, so to speak, into the ownership of these oligarchs. This, in fact, was a very

non-transparent process, and it was a very corrupt one. And it was a legacy of a lot of the problems in terms of the perception and the reality of privatization.

Now, the Bank did not have direct involvement in this privatization process. We weren't advising on it. We weren't asked to advise on it. We had no operation, no adjustment loan at that particular time that would have had a bearing on it. But some of our technical experts did do an assessment of this process, and in January 1996, just as I joined, they prepared a memorandum that was very critical of this privatization process. By that time it had been fairly far implemented, but it hadn't been completed yet. There was still time to come out and criticize it and try and engage the government in a dialogue on it. Maybe we should have done that even earlier.

For example, prior to my arrival in the ECA Region, Mr. Wolfensohn went to Russia, I think in October or September 1995, on his first visit there. But I don't think he was briefed on this part of the privatization process, probably because we weren't sufficiently familiar with it, so he, to my knowledge, never raised it with President Yeltsin, or the prime minister. But later on, when I looked back, I realized that I'd actually been copied on a memorandum from the then chief economist, Michael [B.] Bruno, now unfortunately deceased, flagging that this was a very problematic area, that he thought the Bank should, in fact, take a position on it based on the report that had been prepared by my staff, which I don't think I'd ever seen because it had gotten stuck, actually, at the director level or, if it had come across my desk, it just got drowned out. But somehow or other, because I was otherwise occupied, I didn't realize how important this matter was. It just didn't register. Even Michael Bruno's memo didn't register on my radar screen. It was also, I think, addressed to the then director of the Russia department [Europe and Central Asia Region Country Department III]. And, you know, with the benefit of hindsight, I wish I had paid attention. I wish I had been more sensitive to it, because at least we could have gone on record to debate it internally. Maybe Mr. Wolfensohn could have raised it with the Russians; perhaps I could have raised it with them, or maybe we could have gone public. But all of those decisions were never made because it never went beyond Michael Bruno's memo to Yukon Huang and me. It then got filed, and so we never actually pursued it.

And, you know, it's an interesting example about how these management transitions processes actually have their own potential for making mistakes, because as an incoming manager you are not familiar enough with the problems. You're not up to date enough. You don't see all the risks, certainly, that you'd see with the benefit of hindsight. So to me, the lesson, in part, is that in management succession in senior positions in an institution like the Bank, there has to be much more concern about continuity, which requires ensuring that the new managers that come in are in fact fully briefed, fully on top of their substantial operational domain.

Of course, that was something that we were able to do when I left because the recent new appointments that have just been announced were permitted long overlap periods. So I think the institution has learned a few lessons, not particularly from this example, but more generally. I think the Bank is now trying to do this management succession more systematically.

So, in any case, returning to your original question, for the first year or two years, I don't think I ever issued any sort of clear, strategic statements. It really came out of the reorganization exercise that we then started preparing fairly regular—maybe once a year—strategic statements for the Region. The reorganization document, the renewal document itself had some strategic directions, by starting to differentiate by countries, by sub-regions. What were the priorities in each of the very different sub-regions? Having decided on suitable classifications and priorities, we then over time crystallized and refined some strategic directions, which I think have held up quite well over the years.

BECKER: Let me ask—it just occurred to me--had you talked to Wilfred Thalwitz about the job before taking it? Or soon after taking it?

LINN: Well, I don't recall talking to him beforehand. Now, I'd been with him; I'd heard him speak, for example, at the conference about his job and about the problems of the region. I remember I talked to him in fact when I—yes, I did talk to him, of course, after I took the job. I don't remember. I may have had a conversation with him on the phone before I took it and definitely after I took it. In fact, I hired him as a consultant after the management transition, and he actually took one trip on behalf of the Region to Azerbaijan, on the oil pipeline that was being planned. So I was still in touch but it was not very much. Once you hand over, it's probably good for the outgoing manager to phase out rather quickly. It's really the period beforehand that the overlap and the gearing up should be managed, in a way. But probably once the person leaves, I mean, the vice president, the managers, the senior manager, it's probably best to step away because otherwise there's a significant risk of undermining your successor.

BECKER: So, operationally, after Bosnia and this issue of Russia, what else was . . .

LINN: Well, Russia remained on the agenda, because starting with the East Asia crisis in late '97—I remember the annual meetings in Hong Kong in the fall of 1997 when, in fact, Mr. Chubais, who was at that point Deputy Prime Minister and Minister of Finance, was awarded the Minister of Finance of the Year Award of Euro-Money or whoever makes these awards. But by December 1997 it was very clear Russia was being very hard hit by the East Asia crisis. Many Korean bondholders of Russian government debt had pulled out. The emerging markets became much more jittery, and access to re-financing of what was very large Russian debts became more difficult. The fiscal revenue situation also became increasingly difficult in Russia. So by the end of '97, we actually had a crisis already on our hands. December, January were very tough periods. We went through a rushed adjustment loan preparation and implementation process that went to the Board in two stages, one in December '97 and then another in January '98. And from then on, from December on through September, with the default happening in August '98, it was almost nonstop Russia crisis. It became a very pervasive focus of our attention.

Subsequently, then, in terms of major events, you have the Kosovo crisis from 1999 to 2000. Then Turkey came on the scene with its earthquakes and its financial crisis in 1999, 2000, 2001, into 2002, it was almost a nonstop crisis. So, as I look back, one of the continuing evolving agendas was crisis management. You had basically Bosnia, you had then Russia, then Kosovo,

and a little later on the overthrow of [Slobodan] Milosevic in Yugoslavia, then Turkey. These were some of the big crises, which always take a lot of special attention. So crisis management was one big part of the job, in addition to all the internal transitions.

The other challenge, however, was to articulate, as I said earlier, strategic directions for ECA aside from crisis management. And there, it's interesting that it became clear in the late '90s that the Region had become very heterogeneous, so up that it actually became a matter of defining different strategic priorities for Central Europe, where EU [European Union] accession was a major strategic objective, and for Southeast Europe, where reconstruction, peace, support for the peace processes in different places, heavy focus on integration and peaceful cooperation within the region, and ultimately the goal of EU accession became a major focus.

For Turkey, the big issue was basically modernization of the economy with financial and macro-economic stability but also with fundamental structural reforms, ultimately, again, geared towards EU accession.

For Russia and Ukraine, it was basically internal structure reform, where the three key issues were improvement of the government structure because of the very weak government apparatus and corruption, so anti-corruption became increasingly an agenda item. Secondly, private sector development, the whole question of private sector development, proper investment climate and so on. Russia in particular suffered massive capital flight, at about $20 billion a year, because the Russian investors didn't feel they could properly invest at home. And thirdly, the whole social aspect of the post-Soviet economic collapse was very severe and became increasingly obvious. These were the three major strategic focal points.

Then for Central Asia and the Caucasus, which were in a way the poorest countries and also increasingly were troubled by a debt problem, we realized that these countries were in fact probably the long-term weak link at this important geographic divide between east and west, north and south. In became increasingly clear how important it was to make sure those countries didn't become failed states because of the very severe poverty. But then also, of course, in the early 2000's, Islamic fundamentalism had become an issue. There was the link with Afghanistan. We then initiated an initiative that was jointly undertaken with EBRD, IMF, and Asian Development Bank, called the CIS7 initiative. The reference “seven” was to the seven poorest CIS [Commonwealth of Independent States] countries in Central Asia, the Caucasus and Moldova. This became another important focus of our work. So those are some of the key points, some of the key strategic areas on which we focused as we worked on the region.

BECKER: So it's safe to say that the strategy at first might have been looking towards covering the entire region; that as time went on, that in fact it had to cover sub-regions, if not just separate countries.

LINN: Well, initially, I think, after 1990, 1991, one had the sense--and with some justification initially--that aside from Turkey and Southeast Europe, Central Europe and the former Soviet Union were rather homogenous in terms of the nature of the problem that they confronted in the

intervention on the Bank's side. By the second half of the '90s and especially, then, at the turn of the millennium, it became increasingly clear that there were tremendous emerging differences. Maybe some of them had always been there, but the differences became very clear. And one just had to start calibrating the modalities, the focus of support in terms of themes or sectoral areas as well as the nature of the dialogue in line with the different needs of different country groups.

You know, it was quite different with Poland, the Czech Republic or Hungary on the one hand, than for Tajikistan or a Caucasus republic on the other hand. So, yes, there was increasing differentiation. You know, sometimes the Bank is criticized for having blueprints. The fact is that this perception just couldn't be farther from the truth. Each country program was quite differentiated. The themes were in some senses the same, especially if you look at the CIS with this issue of the three themes I mentioned: governance, public sector and governance reform; private sector climate and environment for private sector development and the social sector safety nets; and trying to protect social spending and the rapidly decaying social service systems. I mean, the themes were quite similar, but then how you actually implement differed quite a lot by countries.

BECKER: Could I—we're getting close to the end here, but I—if you have the energy, I do have a few other questions.

LINN: Sure.

BECKER: Looking at your term as regional vice president as a whole, what do you believe the Bank has accomplished in ECA?

LINN: Well, it's always very difficult to separate what the Bank does and the impact it has and how countries perform, but my sense is that, again, if you start taking these different country groups, you can get a sense of the impact of the Bank, given the different nature of our engagement.

The Bank in Central Europe very quickly got involved, and relatively early, in a fairly major way. We did large amounts of lending across a broad range of areas and sectors, from the Baltic through Poland, Hungary and so on. This included structural and social reforms, for example, of the pension systems, but also investment in and reform of the infrastructure and the financial sector and so on. Obviously, the Bank was not the only partner, because the EU itself contributed through advice and through financing. And the countries themselves deserve the biggest credit for what is historically quite a remarkable success now. But I think the Bank was part of that success story of turning countries that were, 15 years ago, were pretty much communist countries, turning them into in many ways market economy success stories.

And just to scale the difficulty of the task, look at the difficulty that East Germany continues to have, with a financial support from West Germany just incomparably large, larger than what Central Europe received, and where the institutional support was just incomparably larger also. Having a whole row of countries succeed, in many ways, I think, better than East Germany in

building new institutions from the ground up, in actually transforming their economies, was an amazing story. And now becoming bona fide members of the EU less than a month from now is just a tremendous achievement for the countries in the first place, but then also I think for the international community, including the Bank. In fact, I would say, with some immodesty, that the Bank played quite an important part. I think everybody can be proud of that.

In Southeast Europe, we also succeeded. One aspect of the success—and I regard this as a personal success—was that we were able to develop a great relationship with the EU in Southeast Europe when initially this had the potential of becoming institutional competition between the EU and the World Bank. Instead, we managed to build a tremendous partnership. We have a joint office between the EU and the World Bank in Brussels for Southeast Europe. We have always had joint management of the donor process, and a jointly-managed high level donor support group. We have had excellent cooperation on the ground. There were other partners, but the EU and the World Bank clearly were recognized as in the lead in the international community on the economic and social side and in reconstruction, especially in the reconstruction of Bosnia and in the support for Kosovo.

Kosovo was more complicated in some ways because you have the UN and the very complicated jurisdictional problem which that brought, but still, reconstruction has been quite successful in Kosovo. And then, of course, we stepped in quickly in serving Serbia and Montenegro after Milosevic left. Again there are weaknesses, but we have managed to put the region, I believe, on a long term path towards stability and ultimately integration into the EU. In fact, we were the first ones to argue in a regional report on Southeast Europe that you ought to offer these countries the prospect of EU integration when it was not yet the official view in the EU. In fact, we took a risk, because I was quite worried that there would be a backlash from the EU for us making such a statement. In the end, I think it actually contributed, a little bit at least, for the EU to take that jump.

Turkey is also coming around, although I think you can argue whether we could have done better in a sense during the '90s. I think Turkey to some extent was a bit on the back burner through much of the '90s, for various reasons. Some of this had to do with Turkish politics, which simply didn't want us in there. Internally, I think it's fair to say—certainly for my first two, three years—I hardly paid very much attention to Turkey. But then, of course, with the earthquake, with the emerging crisis, it then became clear that the situation in Turkey was simply no longer sustainable. During much of the '90s, though, Turkey had been a country that seemed to buck the trend. It seemed to do the impossible; namely, run deficits and have all sorts of distortions and yet keep on growing and recovering from crises. Well, in the late '90s it ran out of nine lives.

BECKER: Caught up with it.

LINN: Right. And so, once the crises hit, we were involved with a very big effort, together with the IMF, very much led by the Bank's country director on the ground on the structural and social side. I think we were a major partner--not the only one, but a major partner in helping

ultimately manage this crisis. It didn't turn out as badly financially as in Russia or Argentina, but that was not a foregone conclusion. And I think there were, in fact, very systematic reforms carried out. Again, Turkey was helped significantly, without doubt, by the umbrella of an expectation of prospective EU accession. And that is clearly an environment in which the kind of help we can provide is much more conducive to, actually, long-term change with long-term government commitment. So again, I think we played a role in the last four or five years in what I now see is a major turnaround in Turkey.

In Russia and Ukraine, it's a bit more "iffy." I think we helped build the platform for long term turnaround which we now see in these economies. In a way, the most surprising is in Ukraine because it doesn't have oil, but you do see now a strong recovery of private sector activity. The re-integration of economies internally and externally has made major progress. And so, while it took much longer than expected—and again there remain significant problems in these countries—I think there is a link between economic turnaround and reforms supported by the Bank. I think we can take some credit for the fact that systemic change has become endogenous and ultimately turned out successful.

Again there are some areas where we didn't succeed, like privatization that I mentioned earlier, and financial as well as agricultural sector reform. But where we have, in a sense, the greatest problems, I think, is to demonstrate real success in Moldova and the rest of the CIS7 that I mentioned: the three South Caucasus countries and the poorer countries in Central Asia.

And this is why, in fact, we instituted this CIS7 initiative three years ago, basically to try and get a better analytical handle on what's wrong with this picture. Where, maybe, did we go wrong? Among other things, it turned out we underestimated at the beginning the depth of the expected demise of these economies; therefore, we put in too much loan money. Even IDA money turned out to be, with the benefit of hindsight, too expensive. One of the reasons why money is now switched to a significant share of grants under the new IDA provisions is that we realized it takes longer, and you have real constraints in terms of governance and in terms of also re-integration of the world economy. There are a lot of problems of internal security in the south Caucuses, and in the case of Central Asia, you have a lot of governance problems, political problems, and Uzbekistan and Turkmenistan shutting themselves off.

So from where I sit at the moment, there are a lot of areas in all of these sub-regions, a lot of areas you can identify where there are still major challenges, major risks and unfinished business. But I think we can be reasonably proud of what the countries have achieved and also what the Bank contributed. In the CIS7, the picture is more difficult to argue that the international community has been very successful. Or, for that matter, the countries have been yet successful. Unfortunately, these countries, from a longer term perspective, are not yet out of the woods. So there, I think, the jury is still very much out. Again, you can point to a number of good things international institutions have done, including the Bank, but overall, you know, it just remains to be seen whether or not these countries will succeed.

BECKER: One last question, if you have a breath left after two hours of this. You've touched on this, but overall what would you say you've learned about the process of development as a result of your experience in ECA?

LINN: Well, I guess—the process of development, number one, requires that you understand the political economy: you have to know what's happening in a country politically and where a country is going, if from the outside you want to help a country. You have to consider who are the stake holders and how do they interact? What are their goals? What are their incentives? How are they motivated? You have to understand that well in order to understand where a country is going, even if you may not be able to predict perfectly based on that understanding. But at least you can have a better sense of why things are happening or not happening, whether reforms happen or don't happen, who would be hit by reforms negatively or benefit, and therefore would resist or would, in fact, support. These are very important aspects, then, for the international assistance provider to also understand and try to get a handle on what's feasible or not. This doesn't necessarily mean that you actually have to be part of the political process per se, but at least you have to understand, as the World Bank, what is the political context in which you're operating and what kind of obstacles are you likely to face when you push a particular, say, reform or particular investment strategy for a country. So one lesson I take away is that a good understanding of the political economy--winners and losers of particular trajectories or reforms or whatever you want to call it--is terribly important. And by the way, this is one thing that the Bank traditionally has not spent enough time on. And indeed, one of the things I did in my last few months—year—was that I tried to gear up some internal capacity and analytical work on this topic, which, I believe, is now continuing.

To me, the other important lesson is that good government is absolutely essential. And this relates to the political economy, because good government is in fact—as essential as it is—it's a very transient kind of thing. You can have good government, you can have very bad government for a while, and then actually changes are possible.

Take Korea, for example. I recall Korea had lousy governance and government and still doesn't have the best, but it turned around in the '60s and '70s. It became a country where basic government worked, and worked in many ways—at least economically—for the people of Korea. So finding ways to replicate some of this turnaround from completely bad government, bad governance, to good governments I think is absolutely key.

But then, also, the opposite, preventing the opposite from happening, because I think good government can be very temporary. It can be also in many ways undermined. I am thinking about the kind of problems that Western Europe faces, in particular Germany, today in terms of the bad incentives that are generated by excessive governments and badly constructed safety nets and support systems. They are just horrendous in terms of what I see as long term development challenges for Germany now. Similar problems may well occur for Central Europe. Similar problems ultimately may also occur in other countries in the region. But there are problems that can occur unforeseen, perhaps.

So, in the way governments are run and the kind of incentives they provide that one just continually has to be on the lookout. I think good government to me is not small government per se. I'm quite happy to see governments involved in education, health, even infrastructure to a significant extent. I think it's quite appropriate. Doing it right and doing it well, that's the big challenge. And this is terribly, terribly important, in a sense, for successful countries. I think they are distinguished from less successful countries by whether or not that works. Derived from this, then, is whether or not you've got a good private investment climate, because bad government and good private investment climate rarely go hand in hand. Good government and good investment climate usually do. And it's similar on the social side, I mean, having a government that is able to provide social safety nets and social services that are essential, that are progressive, that are looking forward in terms of developing new knowledge. In essence the challenge is to replicate the experience of Korea, Brazil, and in Western Europe of Ireland and Finland. I think those are the sort of the models that you look towards, to pick from and then try to tailor some solutions in the countries in which you live or where you work as an international civil servant.

BECKER: Well thank you very much.

LINN: Thank you.

[End Tape 2, Side B]
[End of Interview]