

WORLD BANK HISTORY PROJECT**Brookings Institution****Transcript of interview with****ROBERT S. McNAMARA****Date: April 1, May 10, and October 3, 1991
Washington, D.C.****By: John Lewis, Richard Webb, Devesh Kapur**

Session 2¹
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[Begin Tape 1, Side A]

McNAMARA: . . say if you were to gather together the people that were in the Bank in senior positions during the time of change, say from 1963 to *[inaudible]* '81, that you'd get quite a different set of views about what was done and why it was done and perhaps even what the effects were. So, it's going to be difficult for you to sort through all of that.

But in any event, I think it would be interesting because it was a period of rapid change and, to some degree, dramatic change, some of which points we talked about last time, but I think I may have to go back over some of what is . .

LEWIS: Yeah, I'd . . .

McNAMARA: . . discussed last time.

LEWIS: I'd like to start, really, with what you told us last time. It's okay to sort of focus today on the internal organization . . .

McNAMARA: I'd be happy to focus on whatever you want to focus on.

LEWIS: Okay.

McNAMARA: But the first point that I started with last time, I believe, was—and I should repeat it—that my conception of the institution was symbolized by the term “development agency” . .

LEWIS: Right.

McNAMARA: . . whereas the conception of many up to that point, and in particular the senior director, *[Pieter]* Lieftinck, was that it was a bank.

LEWIS: Right.

McNAMARA: And the two terms could be defined in ways that would perhaps make them overlap, but they connoted quite different kinds of institutions to the individuals using them, Lieftinck using the term “bank” on the one hand and me using the term “development agency” on the other. And in particular, to me, the term “development agency” connoted that there were certain objectives in terms of social and economic advance in the developing countries that the

¹ Notes of session 1 are in the World Bank Group Archives, but no tape or transcript exists. Original transcript of sessions 2, 3, and 4 by the Brookings Institution World Bank history project; original insertions are in []. Insertions added by the World Bank Group Archives are in *italics* in [].

Bank should be sensitive to and, secondly, that achieving those objectives required not only action by the developing countries and their leaders but also required external assistance . .

LEWIS: Right.

McNAMARA: . . technical assistance and financial assistance. And as I, in a very imperfect way in the early days at the Bank, examined whether we were or were not--we, the Bank, were or were not meeting those development objectives, I felt we were not. In particular, the level of financing was below the level required by the developing countries for the programs then in effect and below the level required to finance quote "sound" unquote projects.

LEWIS: Right.

McNAMARA: Now, if that were true--and one can argue whether it was true or not--but if that were true, then it was our responsibility, the Bank's responsibility, as a development agency, to raise the level of our financing. To do that, we would have to raise the number of, increase the number of professional people on the staff. We couldn't substantially increase the financing, presumably we had a substantial increase in appraisal reports, follow-up reports and so on, supervision reports and so on.

So, therefore, within 90 or 120 days--well, first, let me digress to say that assuming that, A, the development requirements were not being met; B, to meet them required additional technical assistance and financial assistance; C, that was our responsibility to provide it; D, the question was could we.

Well, with respect to hiring people, I was sure we could hire people in the numbers required, and I think subsequently proved we could. As to the money, that was a different issue, and putting aside for a minute the soft loans and just looking at hard loans, if you look at the figures--now, this is right off the top of my head, so I'm sure it's wrong, plus or minus 100 million or so, 200 million--but if you look at the figures for IBRD [*International Bank for Reconstruction and Development*] net borrowing in the world for five years, say '62-'67 or '63-'68, roughly, '62-'67 or '63-'68 fiscal years, you will find they were less than 500 million. I'd say on the order . .

LEWIS: Yeah.

McNAMARA: . . of 300 million a year. Well, so if my conclusion was that to meet development objectives the Bank should provide more than net financing of 300 million or net borrowing of that, could we do it? My belief was we could, and of course we did.

LEWIS: Yeah.

McNAMARA: So, I come back to my point that in those early days, there were some dramatically new concepts . .

LEWIS: Oh, absolutely.

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McNAMARA: . . . that were very, very controversial.

LEWIS: Sure. Well, you left us last time—and we've also by your other stuff we've been reading and seeing that you came on board really to move in a--not a reverse direction, but a very different direction.

McNAMARA: Yeah, because I looked upon the institution as a development agency not a bank.

LEWIS: So, you are going to, one, increase the volume of the scale of activity very, very much.

McNAMARA: Both financial activity and particularly professional activity, technical assistance activities.

LEWIS: That's right. You're also going to try to increase or at least hold and probably improve the quality of the project work.

McNAMARA: Yes, yes. And we were not shoveling out money. We were going to tighten and raise the quality. And in particular, we were going to—and this is a separate point--if the function was development, we were going to ensure that the projects were associated with development and not just . . .

LEWIS: Okay. So, you're going to change . . .

McNAMARA: *[inaudible]*

LEWIS: . . . the priorities, too. I mean, the . . .

McNAMARA: Right. And that not only required that the projects be associated with sectoral plans--and by the way, if you go back you will find then that there were very few sectoral plans available to the Bank or available in the developing countries, and I'm not suggesting we did enough to develop them, but we started a special activity to develop sectoral plans for the more important sectors for the more important countries. And Bernard Chadenet, we even had a little graph that sectors--sectors down one side and countries across the top, and we put Xs where we had adequate sectoral foundations for lending, the idea being that the objective was not to have a high rate of return project. The objective was to have a project that contributed to social and economic advance in the country which meant it should be associated with a--call it a development plan or at least a sector with a sectoral plan.

Now, the project lending in the Bank in the '50s and '60s, in my opinion, was not closely related to development programs as such. The projects were sound in the sense that they had on average, I would say, acceptable rates if not high rates of return, but whether they were as closely linked to development objectives and development priorities as could be done, were there to have been a sectoral plan or were there to have been a national development program they were a part of, I think is questionable. So we were trying to do that.

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And then, a corollary or a derivative of that thinking was, were we operating in all of the fields we ought to be operating in? And the answer was no. Primary education, no; population, no; environmental assessment, no; lending to publicly-owned enterprises through IFC [*International Finance Corporation*] such as development banks, no (we were lending to private banks but not [*inaudible*]) and so on.

And so this goes back to my point. We were trying to conceive of it as a development agency as opposed to a bank and that required shifts in volume, shifts in number of people, shifts in focus.

LEWIS: Right.

WEBB: Who else objected to that? You say it was very controversial.

McNAMARA: Oh, well, in--I'd say the majority of the people in a sense because associated with this, you see, was increasing the volume of lending. And the charge was made that that was shoveling out money without regard to quality. Now, I think the record shows quite the opposite, but that was a widely accepted theme.

LEWIS: Within the organization?

McNAMARA: Well, to some degree within the organization and certainly outside of it.

Secondly, there was considerable objection to substantially raising the amount of funds to be borrowed, and I will give you an illustration of that. The--we had a Swiss loan--borrowing from the Swiss in the capital market in Swiss francs was around, my recollection is, 17 million dollars in October-November of '68 (I've forgotten whether it was October or November). It didn't do well. The allegation by the Swiss bankers, our underwriters, was because of that god damn fool McNamara, a red-eyed socialist who, at the Annual Meeting, had spoken in ways that connoted "development agency" as opposed to "bank," and the money managers of the world were reluctant to buy the Bank's paper because of this radical thinking that had been introduced into the Bank management, and therefore a lousy 17 million dollars you did poorly.

Now, out of that--and I know what, you had this attributed to me and it's in his book--but out of that I fired the Treasurer. And that's when I hired [*Eugene H.*] Rotberg, because the thinking that had led to borrowing 100 or 200 or 300 million net per year the previous five years was carrying over into the borrowing in the future. And there was a tremendous undercurrent that, "McNamara is going to screw this thing up. We're going to throw money away, and you better be careful in buying Bank securities because they won't do well."

Now, the fact--that was not the problem with the Swiss loan. The problem with the Swiss loan was that the relationship between Swiss francs and D-marks--well, first, let me go back and say at that time in the Swiss money markets compared to the U.S. money market you didn't price the loan the day, the day of the issue, in effect. And my recollection is the underwriters carried a risk for a period of time, such as ten or fifteen days, so this was a problem for them and they had some losses as a result on this account. But why did they have a loss? Because--not because the credit of the Bank was at risk in people's minds, but because the exchange relationship between

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German marks and Swiss francs shifted during that period of risk, say, let's say, fifteen days or seventeen days, and we had had a D-mark issue shortly before. So anybody who wanted to buy either a Swiss franc or a D-mark issue, it would have bought the D-mark issue . .

LEWIS: I see.

MCNAMARA: . . instead of the Swiss franc issue. Now, I mention all this to illustrate the point that there was a lot of questioning in the minds of people at the time of whether these new policies were sound. And I don't object to the questioning. That was my job, to sell the change. My only reason for mentioning it now is not to say that people who questioned were wrong or shouldn't have had the questions in their mind, but simply to illustrate my point that there was a major shift in policies underlying the operations of the Bank, and it had many, many repercussions, and this is one.

And as I say, out of that I literally fired the Treasurer of the Bank and hired Rotberg [*inaudible*]

LEWIS: We've been talking with Rotberg. His was a great performance, I think, and . . .

MCNAMARA: Oh, it was terrific. Terrific. And you know, at the end, we borrowing, hell, a billion dollars.

LEWIS: Yeah.

MCNAMARA: Seventeen million? Baloney. But I had a friend come to me, a very, very close friend whom you know—I'm not going to mention--outside the Bank, a publisher, and he said, "Bob, you're in deep trouble." He said, "This issue has failed, and the press around the world is saying that in effect you caused it by your wild ideas."

Another illustration of the same point at same time--I think in the September 1968 Annual Meeting speech I referred to population as a subject that the Bank should address and that in any event the developing countries should address.

I then went down again in October-November to speak to the Western Hemispheric press in Buenos Aires in Argentina, and part of the speech was on population, and the--this was an extension of this view that the Bank was a development agency and should address development problems of which one is excessive rates of population growth, in my opinion. So, I was going to speak down there.

They learned of it in advance. When Margy [*Margaret C. McNamara*] and I arrived in Buenos Aires, we were met by the president of the central bank, and he damn near spit on us--I'm not exaggerating--because he heard I was going to talk about population.

This was all simply part of this program that was created by an effort to shift toward development as opposed to banking. And I'm not suggesting that the ferment was ill advised or unreasonable, but it was a ferment.

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LEWIS: Let me get back to your whole sort of strategy for changing, turning the course of things, but just now that you mention population . . .

MCNAMARA: Yeah.

LEWIS: . . . one thing we've noted looking through the '70s is that whereas you, in terms of these new sort of priorities that you arrived with, a lot of them you implemented a lot, like the agriculture rural development . . .

MCNAMARA: Right.

LEWIS: . . . population, it increased somewhat, but there was not nearly as much done with population.

MCNAMARA: Well, in terms of impact on the world, I think we had a political impact.

LEWIS: Yeah, yeah.

MCNAMARA: But in terms of projects, you know, we had some impact, but not as much as I would like to have had, absolutely right.

LEWIS: And why was that?

MCNAMARA: I'd say for two reasons. One, there was a tremendous amount of opposition in the developing countries to it. And two, there was not a clear understanding on the part of professionals in the field as to what you would finance, where the levers were. And if you look at what we did then, I think you will find that many of the early population projects were in small countries. For example, I think one was in Trinidad, another was in Jamaica. And the reason for it was we weren't sure what the hell we were doing so we started small.

I thought it was the wrong way to do it. I wanted to start in the bigger countries where it was complex and where we faced the real world and either you'd make an impact or you wouldn't, but in any case you'd be dealing with something important. Instead, many of them were in small countries because we were--the people directly concerned were fearful. They didn't know what the hell to do, so they wanted to do it small.

Where we did do it large, such as in Kenya, I think we didn't do very well. And if you go back--and I think one of the first population projects was in Kenya--I believe in 1973--and in the '70s Kenyan female literacy increased, female participation in primary schools and literacy increased, infant mortality decreased, per capita income lowers, and the fertility rate grows. In the face of our population project.

That just means we didn't know what the hell we were doing, and I think it is illustrative of why we were slow getting started. And I would say to this day, John, that the African population programs have not been successful—I speak of sub-Saharan Africa, I should say--500 million people, 40-odd countries, the average fertility rate today is six-and-a-half.

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Look at India. Today, it's true that India's fertility rate, which was about the same as Africa's in the late '60s, six, probably six-and-a-half, India's is down to 4.2 or something like that, Africa's is still six-and-a-half. In that sense, it's improved, but India's population rate today, growth rate today is two plus, and that is disaster for India. India is going to have, mid-century, it's going to have a billion six, a billion seven. Compared to 800 million today, that is disaster.

So, in a very real sense, population programs were slow getting off the ground in the Bank in the '70s. No question of that. But to this day they're not doing very well in many parts of the world. And I would say India and Pakistan and Sub-Saharan Africa are illustrative of it. India had a major advance from the mid to late '60s to the late '70s, but . . .

LEWIS: Well, they mucked things up during the emergency.

McNAMARA: But they--and they've never gotten back on.

LEWIS: Right.

McNAMARA: Anyhow, you're right. I think we stimulated attention in the world, and we got the Bank underway, but we did not implement the programs successfully by and large.

LEWIS: It wasn't a matter of internal resistance within the staff?

McNAMARA: Well, I don't think it was as much internal resistance as we didn't know what the hell to do.

LEWIS: Yeah, right. It's a very tricky business.

McNAMARA: It's a very tricky business. It's particularly tricky if you have a different view than [*Reimert T.*] Ravenholt--have I got the name right, in the U.S. AID [*Agency for International Development*]? Ravenholt?

LEWIS: Oh, Ravenholt.

McNAMARA: Ravenholt.

LEWIS: Yeah, yeah, Ray Ravenholt.

McNAMARA: Right. He had a view that you flood the world with . . .

LEWIS: Condoms.

McNAMARA: . . . with condoms and you've got it made. We at least were a little more sophisticated than that. We thought you had to address demand as well as supply, and we didn't know how to do it very well.

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So, anyhow, you're right on your point.

LEWIS: But back to your sort of general . . .

McNAMARA: But if I may interrupt, I do think we had an impact on the politics of population planning in the world. Governments became more sensitive to it.

LEWIS: Right, right. If you were just sketching how you, what your strategy was for turning this ship--you started—well, you hired Rotberg. You did quite a lot of hiring.

McNAMARA: Not much, no.

LEWIS: No?

McNAMARA: No much. Maybe not as much as I should have, but some. I hired Rotberg and I hired Hollis [*Chenery*]. That was a major--those two were major, major levers.

LEWIS: Right.

McNAMARA: And both of them had tremendous impact on the Bank as it developed [*inaudible*].

I think Hollis—Hollis' contribution as a Nobel Prize-class economist was never fully recognized within the Bank or perhaps even outside. I think he knew--the development economists did, but I think the average person in the world, I would say even the average development economist--didn't know or understand as much as he did. Certainly in the Bank, he was not recognized as having contributed as much as, in my opinion, he did.

But Rotberg and Hollis were the two major hires, and Hollis brought in Ernie [*Ernest Stern*], which was a very important move.

LEWIS: He brought in Mahbub [*ul-Haq*], too, I guess.

McNAMARA: And I think Mahbub, that's right, I agree. And Mahbub was a very important--William Clark was an important addition to the Bank, and he came in the same day I did. I didn't bring him in. It was George Woods who hired and found him. And George talked to me about bringing William in before I came in the Bank. He asked whether I would agree to bring him in, which I most certainly did.

And then there were two other people who were very important. I've forgotten exactly how they came into the Bank. One was Denis, Sir Denis Rickett, and the other was [*Mohamed*] Shoaib. And these were very important because I--we needed to build up the support of IDA [*International Development Association*].

LEWIS: Right.

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McNAMARA: People think that the only time IDA's been in the trouble was in the [Ronald W.] Reagan years. That isn't true at all; IDA was in trouble from the day after Doug [C. Douglas] Dillon pushed it. And I think I'm correct in saying there was one year hiatus in IDA . .

LEWIS: You're probably right.

McNAMARA: . . in about 1967, early '68.

LEWIS: Yeah, there was. There was a delay in the U.S. . .

MCNAMARA: That's right. Exactly. So, I had problems with IDA from the moment I got in the Bank. And one of the things I did was put Denis Rickett in charge of developing IDA support. This was very important.

And another thing I did that was very important was putting Shoaib in charge of--or spending a major part of his time in the Board [of Executive Directors] because . . .

LEWIS: He was there already when you came, wasn't he?

MCNAMARA: Well, that's why I say . . .

LEWIS: He was in and out. He was a minister and . . .

MCNAMARA: He was in and out. That's right. And I think I brought him in, but I'm not absolutely sure of that. In any event, I know that I put him in charge of relations with the Board, and he was a tremendous help to me.

Those two senior people as, well, in a sense personal assistants--that's, isn't what they were called; they were called vice presidents—but Denis on IDA and Shoaib on relations with the Board was very, very important.

The relationship of the President to the Board and the role of the Board in the institution is an extremely important one.

LEWIS: Yeah, yeah, yeah.

MCNAMARA: It's success or failure. And as I think you will find—my predecessor was a wonderful guy; I like George very much. He wanted to stay on as President, and in effect the Board wouldn't let him.

LEWIS: Right. He had very bad relations with the Board.

MCNAMARA: Exactly. And I think you will find that since then Clausen [inaudible] had problems and that the relationship with the Board was a major concern of mine. I spent a lot of time on it. Subsequently brought in Tim [Timothy T.] Thahane; I guess it was after Shoaib left.

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LEWIS: As secretary.

McNAMARA: As secretary, but to play a major role in serving as secretary on behalf of the Board.

I spent a lot of time on the Board, but you're limited. I can't, couldn't run the organization and *[inaudible]*

LEWIS: You did a lot of one-on-one on the Board, didn't you?

McNAMARA: Absolutely, absolutely. And I spent a lot of time, a lot on it, to run the organization, do all the traveling, do a lot of thinking, you have a limited amount of time you can personally deal one-on-one with 42 directors.

LEWIS: Let me ask you a side, reflective question about--if you look at this organization, indeed if you look at most multilaterals, the president or the director-general or whatever he's called, gets hassled quite a lot by governments, but once he gets in place, he really is the number one. And this president, of course, has the resident board there as a kind of constraint on him, although it doesn't look as though, over the whole history, it has been as tight a constraint as, say, the *[International Monetary]* Fund board may have been on it. Is that right?

McNAMARA: Yeah. Definitely not. Definitely not.

And I don't want these words attributed to me at all, but the key to effective direction of the Bank by the president is the degree to which the Board becomes a negative factor in his management, stopping him. The Board—it's difficult for the Board to start something; it's easy for it to stop something. And it can be a negative factor, therefore. It's not often like--I can't think of any case where it's really been a factor for a major new initiative. You may find some, but I don't think you'll find any. I think it has often acted as a restraining influence, perhaps sometimes wisely and perhaps sometimes unwisely, but assuming the minute that the President wishes to pursue a program and believes the program he wishes to pursue is sound, then the requirement is that he relate to the Board in such a way that the Board is not a negative constraint on achieving a sound program. And that requires a hell of a lot of work, and it requires an approach to the Board that sounds contradictory as I have expressed it, but I think it's absolutely fundamental. Number one, it requires that the President recognize, acknowledge, and act in ways consistent with the views that all of the policy making powers of the Board, but number two, find a way to pursue his program which he thinks sound in the face of that, recognizing that there's going to be opposition in the Board.

Now, how to do that? Well, it's relatively simple. It's--if I could express it in ways that sound so simplistic you will think it's more complicated than it isn't: you divide and conquer. And you never take an issue to the Board that you haven't had won before you take it in. You never--and if you go back over the thirteen years, I'll bet you, you won't find twenty times when votes were taken in the Board. You don't take issues to the Board to vote on. You take issues to the Board to discuss and you sense these feelings and you guide yourself accordingly and then you try to

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influence governments and Board members to change their views before you come back with an action or position.

You say, "Well, what does that mean?" Well, take IDA as an illustration. What should the objective be for the next replenishment of IDA, 1969 or '72 or whatever the hell it is. Well, you sense that the Germans--well, you sense, particularly, the U.S. if you'd like to do an increase, and that they're talking to the Germans, and the Germans are concerned, and moreover they don't like the degree of program lending which you've been doing, so you've got a lot of opposition going. And then there's others that are concerned about the size of the staff. So you've got a lot of latent opposition to increasing IDA.

Well, then what you do is you go to some friendly government and Roy Jenkins or even [*J. Harold*] Wilson when he was Prime Minister, or the Dutch, [*Johannes "Jan" P.*] Pronk in those days, or even, on one occasion, I--at the Helsinki IDA replenishment meeting, I used Kuwait to take the lead and to get them to say, "We're going to support an increased percentage for Kuwait of the higher IDA replenishment regardless of what the U.S. does."

And then you get the Dutch to say, "And we're going to come in even if the U.S. doesn't come in at all."

And then you say, more in sorrow than anger, "We're going to go ahead without the U.S."

Now, my point simply is that in these international organizations, the boards are very important. They are the source of power and authority, and the executive must understand that, but he must try to deal with it. And the way to deal with it--I don't like the word "divide and conquer"--it sounds manipulative and I don't mean it that way except in the best sense of the word--but that's what you do, and it can be done.

WEBB: Was your initial program, when you just came in, handled in that way, or was that an exception?

McNAMARA: Well, it was basically handled in that way, but it was also a little more brutal. I'd have to go back and look at the minutes, and I don't know whether the minutes fully reflect this--I suspect they do at least in days of discussion, but I think you'll find--I started, literally, 23 years ago today. April 1, 1968, 23 years ago today, April Fool's Day.

[Laughter]

McNAMARA: But 23 years ago today, on April 1. Now, I think you'll find in the record that in early June--the fiscal year ends in July; June 30, of course--I think you'll find that in early June, if not in late May, I submitted the program to the Board for the next fiscal year. And I think I did it in the form of a five-year program, and it was in that program that I proposed to double the lending for the succeeding five years, fiscal '69 through '73, I guess it was, five years--from, compared to the previous five years. And I think you'll find that all hell broke loose, that--this is probably not in the record, but when I presented it, I presented for the five years the doubling, and then I presented for the next fiscal year the administrative budget in terms of numbers of

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people and dollars for administrative costs. And I had a build-up of personnel planned for that fiscal year which was a part of a five-year program. It was built up to support the doubling in dollars.

And I'll never forget [*Pieter*] Liefinck, the senior member of the Board, said--and I had used the words "development agency," and he said it wasn't a development agency, it was a bank, and it was inappropriate and unwise to expand at that rate and the Board would not approve.

And I said, well, I recognize that the decision was the Board's, that it was entirely appropriate that it make the decision, but I wanted them to understand that if that were the case, the following Monday they'd have to look for a new president.

WEBB: At that point, you had not negotiated support for it?

McNAMARA: No, no, because I had only been there 90 days. I had some support. I don't remember how much I had, to tell you the truth. But while I say I had been there 90 days, less than 90 days, this was in--the paper went to the Board in early June if not late May, and the discussions were in June sometime before the end of fiscal year. So, I had met individually with all the directors and I'd had some discussion with them, but I certainly hadn't negotiated it the way I did subsequently on, say, the IDA . .

LEWIS: And this was kind of a power play, too, wasn't it?

McNAMARA: That's right.

LEWIS: I mean, you were there, new, and you had more clout at that point in the sense that . . .

McNAMARA: That's right. And moreover, I also had the advantage--and this is a very important point, I think--that the agency director, whatever you call him, the executive, CEO in one of these international organizations must, in his own mind, be sufficiently free so that he can put his job on the line if he feels it necessary to do so. And I always felt that way. I was very anxious to stay there; I enjoyed it immensely. I wanted to stay, but I always felt that I didn't have to stay. I was financially well enough off to leave. I didn't need that job financially, and I didn't need it substantively. There were many other things I could do in the world if I couldn't do that. I only wanted to do that in a way that I thought was constructive. And I don't mean that I felt I knew more than anybody else, that wasn't my point, but I thought there were certain fundamentals. And this issue we were dealing with, the issue of whether it's a development agency or a bank, and a derivative of that, the level of financing and size of staff and the program to be developed, was fundamental. If I couldn't get that through, let somebody else run the Bank.

And I know I literally said in the meeting that I recognized the authority of the Board. It was entirely appropriate that they make the decision as they saw fit, but they should understand that if they decided against it, they should proceed to a new president.

LEWIS: Does it make any sense to ask you whether if you had more autonomy, you felt, at Ford or at the Bank?

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McNAMARA: Oh, more autonomy, yeah. Certainly in the narrow sense more autonomy at Ford.

LEWIS: You did?

McNAMARA: Oh, yes. Oh, yes. The board met four times a year; it was an inside board--well, at that--when I first went into Ford, there wasn't any board, or at least, there were no outsiders at all; it was all inside. And the time I left, 15 years later, when I was president, I think there were only three outsiders. So that--and it's a totally different relationship.

And that was, of course, one of the things that I had to quickly adjust to when I got to the Bank. Forty--well, it was forty initially; twenty full-time directors and twenty full-time alternates--forty directors with staffs, meeting every Tuesday morning. But the President did not, then, and I assume today, doesn't—certainly not, during those 13 years I was there--the President had no authority to approve a single loan. Every single loan had to go through . . .

LEWIS: But the Board had no authority to initiate anything.

McNAMARA: Well, by precedent--this is a very interesting point--I think the Board in terms of the Articles of Agreement could have initiated loans, but by precedent, the Board could not initiate a loan or raise the amount to be loaned in a loan . . .

WEBB: This was [*John J.*] McCloy's thing, wasn't it?

LEWIS: That's right. McCloy, I think, made that deal.

McNAMARA: Well, this was a very important point, and at least once during my period, they attempted to raise the amount that I was proposing to loan, and I said that was my proposal, I was not going to increase it, period.

LEWIS: Right. Speaking of this, we want to just check one thing with you--oh, maybe when it comes in our conversation when we're talking about external relations--but S.R. Sen told me . . .

McNAMARA: No, let me interrupt you just to make one point. I may not have made this clear from the way I was talking. I believed then, I believe today, I think and hope I operated in a way consistent with my belief that the power, the ultimate power rested with the Board, excepting only the governors. But the power was with the Board, and it was my job as president to develop a program that reflected my understanding of the responsibilities of the Bank and then to convince the Board that they should approve it. But I always recognized, and I tried always to act with the recognition and to convey to them that I understood the power was in their hands . . .

LEWIS: Right.

McNAMARA: . . . because if you act any other way, you're dead, and that's what happened to George Woods, and it is what has happened since to some people at certain times.

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LEWIS: This was just to check with you that S.R. Sen told me that--in connection with your reappointment--that the word had leaked out that the [*Richard M.*] Nixon Administration might not recommend your reappointment.

McNAMARA: That's right.

LEWIS: And he and Claude Isbister did some talking around with their colleagues and that the Board took an initiative in that case.

McNAMARA: I think that's correct. See, what happened was that, shortly after Nixon came in--*Newsweek* had a column then called "Periscope," by the way.

LEWIS: Oh, yeah, I . . .

McNAMARA: It was a gossip column. But if you'd lived in Washington as long as I had up to the time, about 10 or 12 years, you'd get to know how these things happen. And I could read that "Periscope" column and I could tell you where the leak came from. And in the "Periscope" column appeared a note that Nixon can't wait to get rid of McNamara and he wants to give the presidency to Secretary of Commerce, the Republican bank man—you know—I forgot his name; skips my mind . . .

WEBB: [*Malcolm*] Baldrige?

McNAMARA: Pardon me?

WEBB: Baldrige?

McNAMARA: No, no. This was of some interest to [inaudible]--oh, I know you know, because the guy got in real trouble for shaking down industrialists . . .

[Overlapping speakers.]

LEWIS: It shows my bias and partisanship—I can't think of--we'll check it out.

McNAMARA: Okay. In any event, this was in the news, and then--and he couldn't wait to get rid of McNamara until that happened—so then, and I was pretty sure it was coming out of the White House. So, some months go by and we get another one of these things, and I knew then that it had come out of the White House. I can't remember the guy's name again. Anyway.

So then I wrote a letter to Nixon. And I had a friend in the White House, whom you know and I won't mention his name, and I gave the letter to him and I asked him to forward it to Nixon. And I said, in effect, "Dear Mr. President, I read that you would like to replace me with Mr. Smith, and I want you to know, number one, the President of the United States does not appoint the President of the Bank. The President of the Bank is elected by the Board, but number two, I'm not going to stay here one day longer than I feel I have your support."

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And also, I should tell you--and I don't remember at this time whether I know or not I was on the Enemies List. There were two Enemies Lists, and I was on the first one. I think there were 25 names on the first one--and I don't remember whether--I think the Enemies List came out after this happened. I've really forgotten. In any event, I knew that I was in disfavor in the White House for sure before the Enemies List came out, but I just thought I'd put it to him. And I got a note back very quickly, "Dear Bob, I don't know where you got that idea. You have my complete support," or something like that.

And the point, John, is there was no question but what Nixon wanted to get rid of me, and there's also no question but what the Board would not have approved of his appointee or nominee. And I think that's important to understand.

And when I was leaving, I announced my departure before the election . . .

LEWIS: '80.

McNAMARA: . . '80, but it was clear, at least it seemed clear to me, that Reagan was going to win and therefore I wanted to negotiate with [*Jimmy*] Carter the nomination of my replacement. On the other hand, I knew that the replacement would come in, assuming Reagan won, after Reagan had been inaugurated in January. I would leave the June 30 following that. But I wanted the deal to be made before the election. So I talked to people in the White House, and it was agreed that I would submit a list of names, and they would discuss it with--submit it to Reagan to get agreement on it and then the agreed upon name would be put forward.

So, I had two lists of names. I had a list of U.S. citizens. And if they weren't going to put forward--i.e., Carter-Reagan together--weren't going to put forward a name that appeared to me to be acceptable, then I had a list of non-U.S. citizens. And I was certain that the Board would, if I pushed--they would not accept an undesirable U.S. citizen. Instead, if I gave them a list of good non-U.S. names, they would pick one off of that. And I had names on it that were very, very good. I'll just give you one illustration: a person who was then an Australian, today is a U.S. citizen, Jim [*James D.*] Wolfensohn. He would have been superb.

But I mention this only to say that, as an executive of one of these agencies, the job is to recognize the power's in the board but to relate to the board in ways that accomplish your objectives, and I think that can be done. And the Isbisters and the Sens were vehicles for accomplishing that. Isbister was a superb director. It wasn't that we agreed all the time--not by any means--but he was a damn good director, and he knew how to handle other directors. And Sen was a good director.

LEWIS: Yeah, yeah. I'm sure they were.

WEBB: Isbister was the American director?

McNAMARA: Canadian. Canadian.

WEBB: Oh, I see. At the time . . .

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McNAMARA: His wife was very, very active in relation to the females at the Bank, worked with my wife in [inaudible]

WEBB: At moments when the American president or the White House was not happy, let's say, with you, did it ever reflect through the ED [*executive director*], the American ED?

McNAMARA: Oh, yeah. Well, the contrast to, say, the Canadians or the British or the French--the Americans rarely appointed an outstanding director. There were some exceptions, for example, Ed [*Edward R.*] Fried was a director. He was superb, but I'm not going to mention some of the others, but--and before I came there were some good directors. Livingston Merchant was a U.S. director who was a very able foreign service officer, but many of the directors were relatively low rank and therefore had relatively very little influence in the Treasury and relatively little influence in the Bank. And when I needed something done, I would, of course, take it to the U.S. director, but I would deal with the Secretary of the Treasury.

The French and the British, in contrast, did then--and I suppose today--appoint a single individual for three jobs: IMF director, World Bank director, and minister in the embassy. And because of that, they had much higher quality people and much more influential people, very, very able people. The World Bank French director became chef de cabinet to [*Valery M.*] Giscard d'Estaing. Normally, the French directors in the Bank were inspectors of finance, and they are superbly trained.

LEWIS: Oh, boy, they are.

Go back to personnel. People are thought of as sort of your particular people during the '70s when—who was first—Hollis and Ernie, Mahbub . . .

McNAMARA: William Clark.

LEWIS: William Clark. And you can add to the list—well, Gene Rotberg, certainly . . .

McNAMARA: Yeah.

LEWIS: Is there anything that these guys have in common?

McNAMARA: Oh, I think they're all bright and able.

LEWIS: Yeah, yeah.

McNAMARA: And dedicated to development, every one of them, and independent spirits. Mahbub, for example, went up to Canada one time--I'll never forget this--and he made a speech up there in which he said, in effect, the debt of developing countries, including the debt owed to all our international agencies, should be forgiven. Jesus, all hell broke loose, you know. And here I am, trying to sell bonds on the world market, IBRD bonds, and Mahbub's saying the debt should be forgiven.

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But I said, “For chrissake, Mahbub--how are we going to run this place that way?” People . . .

[End Tape 1, Side A]

[Begin Tape 1, Side B]

McNAMARA: . . . and at the end we had great difficulty in getting the report out of the *[Lester B.]* Pearson commission. Ernie and Ed, I think, were the primary authors.

LEWIS: I know Arthur Lewis was very--somehow he fell out with Ed on that process, but he thought Ernie was great *[inaudible]*

McNAMARA: Well, I didn't know Ernie very well, initially. Hollis knew better than I did, and I think it was--I had forgotten whether it was Hollis or who it was . .

LEWIS: Oh, I think it was Hollis. He succeeded . . .

McNAMARA: . . that brought him on the Pearson Commission . .

LEWIS: I see. Oh.

McNAMARA: . . because it was through the Pearson Commission that I first came to know him.

LEWIS: Yeah.

McNAMARA: But in any event, I had great respect for what he did on the Pearson Commission, and then I think it was Hollis who brought him into the Bank.

But to go to a different point, I think those people all had that quality in common, the quality I mentioned. But beyond that, I inherited some extremely able people.

LEWIS: Yeah.

McNAMARA: The Burke Knapps and the Bernard Chadenets and the Warren Baums--very, very able people.

LEWIS: Yeah, yeah, yeah.

Now, there are some people on the previous sort of inner circle that you didn't relate to so well, I guess—Gerry *[Gerald M.]* Alter; is that right?

McNAMARA: Well, yeah . . .

LEWIS: Dick *[Richard H.]* Demuth?

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McNAMARA: Dick Demuth, right.

I think some people in the Bank--perhaps for some reason, certainly in their minds for some reason--were antagonistic toward the United Nations system, toward the United Nations offices in New York . .

LEWIS: Right.

McNAMARA: . . and toward other agencies and were reluctant to see the Bank associate with them for fear the Bank would be contaminated. And that related to possible cooperative programs with the FAO [*Food and Agriculture Organization*], with UNESCO [*United Nations Educational, Scientific and Cultural Organization*], work with UNCTAD [*United Nations Conference on Trade and Development*], work with the Secretariat in New York. I thought, on the other hand, we should be cooperative while remaining independent. I didn't think those were contradictory, and I tried to act that way, but I had some differences of opinion on that score with [inaudible] on some of these things.

LEWIS: I remember, in terms of the great--you were on the global negotiations panel. You were ready to go farther than--actually, much farther than the U.S. Government.

McNAMARA: That's right.

LEWIS: They [inaudible]

McNAMARA: That's exactly right.

LEWIS: Yeah, how was it--Burke and Ernie, in a sense, one succeeded the other--is that right?--in charge of operations.

McNAMARA: Yeah, although most of the time I was there it was Burke. Of course, Burke--I retired June 30, '81. Burke wouldn't have retired more than three years earlier.

LEWIS: That's right. Under Ernie did the WDR [*World Development Report*] and then . . .

McNAMARA: Yeah, that's right. So Burke and I worked together for ten years. I mean, he is a superb human being, no doubt about it, and a very, very competent person in development economics. So although, I think, initially, we had, perhaps, different views of program levels and program directions in the Bank, I think we worked--from my point of view--we worked together very well. I enjoyed the association enormously.

LEWIS: We hear the same thing from him.

Do you have any more questions about personnel or should we talk about organization and reorganization?

WEBB: Yeah, I'd love--I think we should move ahead.

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LEWIS: Okay. So you got the—McKinsey [*McKinsey & Company*] in for the organization of 1972?

McNAMARA: Oh, that was '72. That's much later. We all have to get from '68 to '72. Now in . . .

LEWIS: Okay. All right.

McNAMARA: Now in . . .

LEWIS: Oh, you--I suppose in order to decide to go for the organization, you had some perceptions of . . .

McNAMARA: Well, yeah, that's what I wanted to start with. I think the--pursuing the development agency theme, a derivative of that was my feeling that the projects should be much more related to the development programs within a country. And a sub-element of that would be to sectoral programs, and that the country economists and, in a sense, the division chiefs, country division chiefs, should play a much greater role, therefore, than they had up to that time. The Bank up to that time—I'd call it project; it's a slight exaggeration--but project-dominated as opposed to country-dominated or country program-dominated. And so I began to, within the organizational structure, try to give more power to the country staff as opposed to the projects staff.

And then I felt we needed to really formalize that in an organizational change, and there was tremendous controversy over that. The project people--very, very able people; the Warren Baums and so on--felt that this would greatly weaken the preparation of projects.

And then--and I shouldn't tell you this but will--and then I thought, "Well, I better get--I know exactly what I want to do." I digress a moment. I had some association with some consulting firms at Ford and in the Defense Department, and I never felt that you should call in a consulting firm as the CEO of an institution unless you called it in to ratify what you'd already decided to do. So being quite frank with you, I had decided what I wanted to do in '72, and I called in McKinsey and Company to ratify it. That's what happened.

And then--and, but there was tremendous controversy. If you go back, there must be . .

LEWIS: Yeah.

McNAMARA: . . papers from Warren and Bernard. They are wonderful people--were then and are today, wonderful people, and they weren't trying to oppose the shift of some authority from project personnel to country personnel to maintain their empire. Not a bit. They believed sincerely that to begin to dilute projects to take account of country considerations would weaken the quality. I thought the reverse, that the closer you got projects to the development requirements of the country in terms of broad development objectives, the stronger the projects would be and the greater contribution the money and the technical assistance would make to

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development. And to do that, I wanted the country division chief and the country economist to play a much greater role in it. And I wanted the project people to begin to become much more intimately acquainted with the country and its needs than they had been in the past.

So the reorganization in '72 was designed to accomplish that underlying objective, and McKinsey and Company came in--I have forgotten how I did it, but hell I knew . .

LEWIS: Gave them a few clues here.

McNAMARA: . . I knew exactly what the report was going to say before I hired them, much less before we got the report.

Now the--to digress a moment, the reorganization of . . .

LEWIS: '86?

McNAMARA: '86.

LEWIS: Yeah, I wanted to hear you on that.

McNAMARA: Well, I'm not going to tell you my views--with one exception--on it.

It was a further step in that direction, and I think that was entirely proper; however, it eliminated something that I think was absolutely essential, and that is functional control over project preparation. And I had been accustomed in various places--you know, Ford and the Army and the Defense Department--to distinguishing between administrative control on one hand and functional control on the other.

At Ford, for example, we had a divisional structure, but we also had a central administrative structure--I was controller of the company at one time, and I had controllers through all the divisions of the company. The controllers in the divisions reported administratively to the general managers of the division; they reported functionally to me. And I could set the technical objectives and procedures and standards that the controllers across the whole company were to adhere to, and the general managers were responsible for the day-to-day administration. But if a controller in a particular division began to deviate from these procedures or standards, I had the power to, in effect, eliminate him.

Now, the Bank, I think they needed that same differentiation between functional control and administrative control, and the '72 reorganization did not eliminate the functional control of the project department. Warren Baum . .

LEWIS: The central projects staff, as it were.

McNAMARA: That's right, the central projects--exactly.

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Warren Baum as director of the central projects staff was functionally responsible for all the projects throughout the whole Bank. And his agricultural project division chief, Monte [Montague] Yudelman—and, by the way, there was an important change that I'll come back to in a little—but Monte Yudelman had functional control over all agricultural projects, and that was very important. Today, I don't think you can find that, and I think that's a serious weakness.

LEWIS: Well, it's been regionalized now, and . . .

McNAMARA: There is no central project control, functional control

LEWIS: The projects staff still has a chance to make comments, isn't that right?

KAPUR: But now you have regional technical departments.

McNAMARA: Yeah, but you do not have a central projects staff with an agricultural project director under it and so on and, I think, establishing standards and exercising functional control across the Bank. And I think that's a serious weakness.

LEWIS: Warren talked to us about that when we had a session with him.

McNAMARA: But we maintained that in the '72 reorganization very strongly. Now, we did not go as far as they subsequently did in decentralizing project authority to the country and regional . . .

LEWIS: You didn't have, really, desk officers in the '72 period, did you?

McNAMARA: Well, not the way they do now. And moreover, we kept centralized certain project functions that since have been split up that I think it was wise to split up. And one of the reasons we kept it centralized was economy of operation. There were certain project departments--and I think population would have been one of them--where we didn't have a sufficiently large critical mass to split it up and still have a critical mass in each of the regions.

In any event, I simply draw the comparison between '72 and '86.

LEWIS: Yeah, yeah.

WEBB: Could I go back to '68?

McNAMARA: Sure.

WEBB: You came in and very quickly you drew up a long-term plan.

McNAMARA: Right.

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WEBB: That plan, essentially--the way you've described it--was a list of objectives, a new direction. Were you--did you also have in mind a list of how--other than raising more money, of course . . .

McNAMARA: Oh, yeah, sure. That's why primary education, which had not been authorized for Bank lending--I think I'm correct in saying that; had not been authorized for Bank lending up to the point--we proposed that we initiate lending for primary education, because that was a "how." How are you going to get people qualified?

WEBB: I'm sorry. I should explain myself there--I mean, in terms of the administration of the Bank.

LEWIS: You mean sort of procedures?

WEBB: Procedures. In other words, you were aiming to double or triple on borrowing, the level of activity.

McNAMARA: Yeah.

WEBB: Were you worried then? Were you thinking, then, about what does this mean in terms of how the Bank was run?

McNAMARA: Oh, yeah. In terms of rate of expansion, I had forgotten--I had a maximum rate of expansion, I think it was 25 percent a year in major sections, staff expansion. And I had, in terms of "how," I had a major objective, was to reduce the percentage of North Americans, particularly U.S. staff, and increase the percentage of non-U.S. and particularly developing country. So, there were a lot of "hows" along the way.

WEBB: Were you particularly worried about questions of control with the larger volume?

McNAMARA: Not really, not the controls. My God, I'd been in large organizations at Ford—I've forgotten how many Ford's got, 175,000 or something like that, all over the world--and the Defense Department, millions. I knew you could control an organization.

And one of the--going back to "how," though--one of the things I did was set up under Siem Aldewereld and the Dutchman--a wonderful guy, [*inaudible*] he must have been--he was the head of the budget department for planning and budgeting. I set up--in terms of "hows," I set up a new organizational structure, and one of the elements of it was planning and budgeting, very important, and I worked very closely with that, and that was my control mechanism, projected inputs and outputs and then we had monitoring of it and so on.

And then, in terms of "how," I initiated a measure of performance, a retroactive look a year after the project was completed--the project evaluation department. It was--again, I was determined that we would maintain a control and we would have measures of performance in terms of costs. We developed measures of efficiency vis-à-vis others who were acquiring information, like the Asian Development Bank and (I guess it was) U.S. AID. And we set up measures of

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input/output relationships with the World Bank vis-à-vis the Asian Development Bank and U.S. AID. We set up measures of the performance of the project as measured against the initial objectives.

Every loan starting with the loans in '68--I think it was July 1, 1968--every loan, including IDA, was evaluated one year after completion of the project.

LEWIS: This was OED [*Operations Evaluation Department*]?

McNAMARA: OED, that's right. And it was designed to address the issue you're talking about, issue of performance, issue of management control.

LEWIS: You put Mervyn Weiner there?

McNAMARA: Yeah, yeah.

LEWIS: At the beginning or was he . . .

McNAMARA: Well, I was just trying to think--I don't think he was the first. I think an Englishman, I think, was the first; I can't remember.

LEWIS: We can check.

McNAMARA: In any event, I set that up for specifically that purpose of control. But the initial, the foundation of initial controls was the formation of the program in budgeting, planning and budgeting, in fact, which was program and budgeting, P and B Department, which was "underseeing" all development.

LEWIS: [*K. Georg*] Gabriel?

McNAMARA: No, it was a Dutchman, a little short Dutchman who ran it, a wonderful guy. But he was terrific, and I worked very closely with him.

There were only 6,000 people there after we got expanded; I guess when I came in, there were about 3,000 altogether. And hell, I can control 3,000 people almost by myself. And with a small programming and budgeting department, it's easy to control once you've set up measures. So many projects refer to . . .

LEWIS: And your country policies department had some kind of control function within it.

McNAMARA: Yeah, sure.

LEWIS: Which was closer to the action than the research department.

McNAMARA: Yes. But this--the programming and budgeting department; whatever name it had; I don't remember what it was--was the major control center in terms of input/output.

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Then in terms of substance, that's where the country programs department came in.

LEWIS: Yeah, yeah, yeah.

McNAMARA: And then we had outside controls as well. Barbara Ward was an important person.

LEWIS: Yeah, tell us about the role she played.

McNAMARA: Well, she was not--obviously not--part of the Bank . .

LEWIS: Yeah, I know.

McNAMARA: . . but she was a--I didn't know her. I had read her, some of her books before I went to the Bank, and I was very impressed by the lucidity of her writing and thought and also impressed by the breadth of her vision and her feeling for the people involved. And it turned out that she was a close friend of William Clark's, and he introduced me to her, and then she and I got along very, very well together. So she was an important outside influence, just like President [John F.] Kennedy turning to John Galbraith or whatever for advice. And she was particularly useful in sensitizing us to environmental concerns and to some of the human development concerns.

LEWIS: Bob, let me ask you one thing about organization that's a sort of basic question, and that's about centralization versus decentralization. Now, the Bank is generally perceived to be--compared to other aid organizations--as being quite highly centralized.

McNAMARA: Well, in terms of physical location, that was certainly true in my day, and it's still true to this day. And I think one can argue that, although if you look at the number of people we had--if you compare them, the staff at the Bank, certainly in 1981, to the staff of U.S. AID in relation to the volume of work done, we had much, much fewer staff per unit of output than did U.S. AID. Now, maybe we didn't do all the things U.S. AID was doing, but much, much fewer.

LEWIS: Well, of course, AID was still very heavily in the technical assistance business, and that takes people.

McNAMARA: Well, that, that's right. I was just going to say they were, and they were doing that onsite in the developing countries and we were not.

LEWIS: Right, right.

McNAMARA: So, in that sense, we were centralized. We were basically Washington.

LEWIS: You were geographically centralized.

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McNAMARA: That's right, exactly. So we, A, we were geographically centralized. But I think that it's true that they were doing far more technical assistance than we were, but I think if you go back and look at input/output measures, you'll find that we were doing more with fewer people. And one of the reasons was that we were centralized geographically, at least were in my day [*inaudible*]

And secondly, were we centralized administratively? Well, to the degree that we had greater focus on projects as opposed to country orientation, I think that was a centralizing as opposed to a decentralizing feature. That began to change shortly after I came there, and it was formalized in the reorganization of '72. There was decentralization toward the country responsibilities in '72, much more than earlier.

It was centralized in the personalities, say, Warren Baum, Burke Knapp, myself. We maintained pretty tight controls over our respective spheres of interest or activity. And in part it was--on their part, Warren's and Burke's--was because they had been there so damn long and they knew so much. But Burke would go over almost every project; Warren, too. And in that sense, it was centralized.

Now you can say, "Well, that's wrong. You shouldn't be centralized." Well, if you can do it without holding it up, I don't think the penalty was great. Now you say, "Well, it doesn't build people below." I'm not sure of that. I think—I don't think the degree to which Burke and Warren participated in the actual project review process seriously limited development of people below them. We had some damn good people that grew, the [*Edward V.K.*] Jaycoxes, for example, or [*inaudible*] . .

LEWIS: Anything about the . . .

McNAMARA: . . the Bernie [*Bernard R.*] Bells.

LEWIS: Well, I'm going to come to Bell because that's a real puzzle. Now, there you've got . . .

McNAMARA: There was a decentralization.

LEWIS: That's right.

McNAMARA: No, you're absolutely right.

LEWIS: And how you—I mean, it's not only very different from the rest of the [*inaudible*], but it's also very successful.

McNAMARA: Absolutely. Absolutely. We'll come to that later.

But there was a centralization; there's no question about that. And I think certainly I and maybe the others were severely criticized for that, and it's conceivable we went too far. I don't think so. I don't think so. I think that we were able to maintain that without preventing the growth of people below.

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LEWIS: Was there any sense in the staff of either not wishing to be, to leave Washington that much or of wanting . . .

McNAMARA: No, no. If you're talking about geographical centralization versus decentralization, no, I don't think so. I think that was--at least I viewed it, and I think Burke and Warren did as well--as a means of both economizing in terms of financial expenditures and economizing in terms of time.

Now you say, well, how to relate Bell to that and Indonesia to that? Well, in two respects. Number one, it was done with respect to Indonesia, and it was later done with respect to China--I'll come to that in a moment--because they were unique cases. We had zero operations in Indonesia and China, separated by 12 years when we started. And it sounds absurd to say this, but how did we start in Indonesia? Well, I knew so damn little about development in the Bank when I got there that, two or three weeks after I arrived I went--on one Saturday morning by myself, I just got out the atlas. I have it still, right over there, under the globe which was given to me by associates, Cy [Cyrus R.] Vance and others from the Defense Department, when I left. I took the atlas out, and I went down the developing countries, and I wrote opposite each one the amount of loans outstanding to that country. I got to Indonesia, it was zero. So on Monday, I asked why it was zero.

And they said, "Well, because they're not qualified."

"Why aren't they qualified?"

Well, I think I'm correct--at least, it's approximately correct--that in the previous ten years, there'd been a 600,000 percent, 600,000 percent price inflation, say, from '57 to '67, after Sukarno left, the Indonesian prices had risen 600,000 percent. They had been driven off of monetary basis, in effect. And the Bank had never loaned there.

So I went out to Indonesia, and I think it would have been July or August of '68. It was the second--I think it was the second trip I took. First, I believe, was to Turkey and Egypt, and the second was to Indonesia or vice versa, but in any case, it was in three or four months. And I went out there to talk to Suharto and see whether he wanted the Bank to borrow and whether we could justify the lending. And he did, and I said, "Well, this is so new to us, and new to you, if we were to do it, would you want an office here?" And he said he would. So I came back--and I thought it was so damn complicated.

Again, let me digress and say that while I was out there I met the "Berkeley mafia." And the "Berkeley mafia"—as I remember there were five of them headed by Widjojo [Nitisastro]. And there were a couple of associates that were "Dutch mafia" that had come from a similar education in the Netherlands. And the "Berkeley mafia," as I remember it, had been educated on Ford Foundation fellowships, University of California at Berkeley. And it turned out . .

LEWIS: A few of them at MIT, too, but they called them that.

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McNAMARA: Right. It had turned out the guys at Berkeley had taken their PhDs under Malcolm Davisson, who had been my professor of economics 20 years earlier. They took him in the mid-50's, and I'd taken an undergraduate degree in the mid-'30s, I had Davisson. In any case, we had a *[inaudible]* relationship.

And it was so damn complicated, and we knew nothing about it. I thought, "My god, if we're going to get involved in Indonesia and we're going to have an office there, I've got to get the ablest person I can find in the Bank and I've got to give him authority to deal with this *[inaudible]*" Then regional offices were headed by, A, not low-ranking, but certainly middle-ranking, not high-ranking individuals, and, B, they had practically no authority, everything had to come back to Washington for action.

And so first I found--I tried to find the ablest person I could. And I didn't know Bell well, but he was recommended to me as the ablest, and I looked at what he had done in India, that famous Bell Mission. And then I met with Bell and I concluded he was the right man. And then, B, I'd done—I just had to break through this procedure under which everything in a region had to come back to Washington for approval. So I wrote a--I personally wrote a letter of authority for Bell, under the terms of which—you can find that, I'm sure, in the system some place--under which nobody in Washington had the authority to overrule him except me.

And that--we had a hell of time . .

LEWIS: I'm sure you did.

McNAMARA: . . with that piece of paper, but that's the way it worked.

And he then was able to choose his people and essentially lay out his program. In the first place, he had a much larger regional office; he had *[inaudible]* such as I would say, twelve professionals or something like that. He had only one or two or three *[inaudible]*. And secondly, he had full authority to develop his program, and when people in Washington got in the way, he would appeal to me. And over time, with great blood on the floor, we made that thing stick. And it worked.

I think, today, if you go to Indonesia . .

LEWIS: We're going to do it.

McNAMARA: . . Widjojo and Suharto would tell you that this really worked.

Well, we did somewhat the same thing in China 12 years later when I went out there in 1980, about April of '80, to meet with Deng Xiaoping.

And I should digress to tell you that the Secretary of the Treasury of the U.S. tried to prevent us from going.

LEWIS: Really?

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McNAMARA: They did not want China in the Bank. And, you know, it wasn't entirely without reason. They thought how the hell are you going to get IDA through [inaudible] with China in the Bank, and to pull China in, Taiwan—Taiwan was fighting us tooth and nail.

LEWIS: This was the Carter Administration.

McNAMARA: Carter Administration. The guy--you would--you could find his name. Burke knows it--the Republic of China, Taiwan, had a guy who had been ambassador here. At that time, they didn't have an embassy in Washington, but this guy was still floating around town, still carried the rank of ambassador, and he was the link between Taiwan and the China lobby, the old China lobby—you know what that was.

LEWIS: Sure.

McNAMARA: Warren—I forget his name—Judd.

LEWIS: Yeah, yeah, yeah. Walter Judd.

McNAMARA: Walter Judd. Oh, Jesus, they were awful. They threatened me, and they were going to hold up IDA and they were going to do this, if we brought the People's Republic in. But I thought it was time to do something, so I went out there, negotiated with Deng Xiaoping. And at the end I said, "Okay, now you're going to be a member and people are going to be able to [inaudible] Do you want an office?"

"Yes."

So, well, we didn't have anybody from the People's Republic at the Bank at the time. We didn't know a hell of a lot about it. In fact, we knew nothing. But we had--the person who was with me then was Caio Koch-Weser. He was my assistant, and he was with me in Beijing negotiating, he was at the negotiating sessions. He was very interested in becoming division chief, and he was an extremely smart, able guy. So, I said, "Okay, Caio, you're going to be the division chief, and we're gonna . . ."

And Ed [Edwin R.] Lim--I don't know whether he was born in Taiwan, but anyhow, he was a Republic of China citizen--was also with me. He--we had had--he was the only person at the Bank who knew a damn thing about China and the People's—I've forgotten whether he had ever been to the People's Republic but he was Chinese, so I thought he knew something about it. And he prepared sort of a desk study before I went to Beijing as to what their economy was like and so on. And so, I said, "Okay. You're going to be the resident rep [resident representative], and you, Caio, and you, Ed, have full authority to bring this program off." And they'd been with me when I said to Deng Xiaoping, "I want you to understand that if, ten years from now, we're not loaning you \$2 billion a year"--by the way, their current account, at that time, I think, was in surplus, in 1968 . . .

LEWIS: Yeah, that would have been almost [inaudible]

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McNAMARA: Yeah. I said if--and I said to them, "What--ten years from now, what do you think your current account balance should be?" They [*inaudible*] I said, "Well, I think it should be in deficit a rather significant amount. And if we are not loaning you 2 billion dollars a year and the new [*inaudible*] ten years from now, I will feel we failed." I said this to Deng Xiaoping.

So, in effect, I said to Caio and Ed Lim, "Now, I want you to work this problem, in ten years, contribute to laying a foundation for the advance." Deng Xiaoping had told me that he was going to start the responsibility system, which, as a matter of fact, he'd already begun in agriculture. He began it, I think, in late '79, no real evidence of it yet, early '80s. But in any case, he had done that. And it was clear that he was embarking on a program to substantially expand their rate of growth and deal with their social problems, spread the benefits of growth across the economy, begin to relax the controls and so on.

So, Caio and Ed Lim were, in effect, put in there to facilitate that, contribute to it, and get the job done. And, boy, they did a [*inaudible*] If you look at the record of what the Bank has done in China, say, in 1980s, through Tiananmen, it was a record of tremendous accomplishment, equivalent to Indonesia. Somewhat different because Caio was the counterpart of Bernie Bell, but Ed Lim had a tremendous authority and tremendous influence in Beijing.

LEWIS: They both were in Beijing?

McNAMARA: No, Caio was in Washington.

LEWIS: Okay.

McNAMARA: And Ed Lim worked for Caio, but Ed Lim was in Beijing. But Ed Lim had tremendous contacts with the government. And the first economic report on China, which came out, let's just say, a year-and-a-half or so after my meeting with Deng Xiaoping, was in eight volumes, and the first volume of it the prime minister insisted every minister read, and that's the kind of a relationship the Bank had with China during that period. Tremendously important. And I think that's what we should have had around the world, and our offices were not, generally, of that quality.

LEWIS: No, well, but you gave the authority to these two.

McNAMARA: That's right, absolutely. And it worked. Absolutely.

LEWIS: I reviewed for the, for OED the history of the Bank in Pakistan. I was there in '84-'85, and it was quite clear that the office didn't have any . . .

McNAMARA: No way, no way. And I assume responsibility for that. We just didn't do it.

LEWIS: Yeah, yeah.

McNAMARA: Now, you can say, why not? Well . . .

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LEWIS: It's been a puzzle to me over the years.

McNAMARA: India . . .

LEWIS: Mixed case.

McNAMARA: Mixed case, that's right, India.

WEBB: And it would have changed the Bank if you had done many more like that.

McNAMARA: Well, yeah. I wouldn't have minded changing the Bank. The problem was, I don't think I felt then that we had people who were qualified to do that. It requires a high level of ability, and I think you would agree, John, that Bernie Bell is an unusual person. There aren't many Bernie Bells.

LEWIS: Well, that's true. I do think that, in its heyday, AID had some pretty good people in it.

McNAMARA: You're damn right: the Dave [*David E.*] Bells and yourself and so on. You're absolutely right.

LEWIS: But of course, they all came from the same country. The one thing you were doing here was [inaudible] a homogenous . . .

McNAMARA: That's right. Exactly, exactly. And it was hard to do that. If you look at--I certainly don't want this in the record--but if you look at development economists you don't find--you certainly didn't back in the '60s and early '70s--find other nations educating development economists the way this country did.

LEWIS: I think that's right. Now, the others are doing more than we do.

McNAMARA: I think that's right.

LEWIS: But . . . How much time do we get?

McNAMARA: Well, I'd like to end in about 15 minutes. I'm gonna to leave at 6, but I'd like to glance at the [*inaudible*]

LEWIS: Well, I think that's fair enough. You've been very generous.

Richard, you have some pressing questions?

WEBB: Well, if we can get back to the people . . .

McNAMARA: Yeah.

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WEBB: . . I was wondering about maybe differences in style between those people in how they ran the Bank. One that comes to mind is Ernie and Burke Knapp. I don't know--I don't have that much of a sense of either, but the sense that I have is that both of them were extraordinary general managers at the Bank and that they ran the Bank in a rather similar way. Do you see it that way?

McNAMARA: Well, in the first place, I don't want to comment on people beyond what I've already done. I've gone further than I would wish.

Secondly, I think I would say Ernie and Burke were similar in the sense that both had an extraordinary grasp of the technical elements of their job. Each of them knew more about development, I would say, than almost anybody else in the Bank. Each of them knew enough about the details of macroeconomic policies in individual countries and the details of individual projects to feel quite confident that they could express a judgment and if the judgment were different than that of some of their subordinates, that they would overrule.

Now, that's damn dangerous if you don't have that capacity--which each of them did--and it can be debilitating even if you do have that capacity if, in the process, you cause a loss of confidence in your associates. I don't think that resulted from either one of them. I don't know that's the case.

Burke had that capacity, in part because he had been there so long, 25 years or whatever it was.

Ernie, in part, because he was a very hard worker and a very bright guy and because he also had had long experience, belying his years, in development before he came to the Bank.

So, they were extraordinary people. But you have one today, Moeen [*Qureshi*], is equally experienced in development. A different kind of manager, I suspect. I haven't been there since Ernie was the manager of operations, but I suspect he manages in a different way than Ernie and Burke did. But Ernie and Burke were very strong, hands-on managers.

LEWIS: We've been looking--we haven't really burdened you with this today, but the question of how the hell we're going to find our way in this mass of material that's available to us is a real puzzle. I mean, now they have 65,000 cubic feet of records that we have access to, that's on the operational end. One beginning clue is the minutes of the--or rather the records of the President's council meetings, which are quite compact, as you remember, and they sort of bring things to focus. An awful lot of . . .

McNAMARA: I think they'll be useful to raise questions. I doubt they'll provide many answers.

LEWIS: Well, you see how people are taking positions, and you in that period come down finally on the decision or you wouldn't, but at least they sort of slice through what would seem to be the principal issues, but the stuff I was looking at today, through the period '76, '77, '78, around in there, an awful lot of discussion about morale, staff morale.

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McNAMARA: Well, I'm not sure. Did it relate to salaries, for example?

LEWIS: Well, there's a tremendous amount on salaries.

McNAMARA: Oh, my god. You know, I think at that time the staff in the Bank--I mean of the IMF--I think we were the--it was contagious. The irresponsible actions of staff, professional staff, in the IMF were contagious, and the World Bank staff--I think the IMF staff, the professional staff, went on strike at one point, as a matter of fact.

LEWIS: Yes, they did, didn't they?

McNAMARA: I don't think the Bank staff did. But the--if you look at, well, we're talking about morale--I think it was primarily morale relating to compensation in the broadest sense of the word: benefits, et cetera, et cetera, transportation, air transportation and so on. But I think if you were to look at that, you would find very, very irresponsible pieces of paper prepared by members of the professional staff of the two institutions claiming that they were underpaid in relation to benefits, improperly served and so on. And my belief is that we, the management served--the IMF and the Bank, particularly the boards--failed in fulfilling our responsibilities.

I'll just give you one illustration. We lowered the retirement age to 62. I think that's inexcusable, at least with full pensions for retirees, 62 is in society today, especially with increasing increased life expectancy and so on . . .

We had a hell of a problem in the World Bank over a period of years on air transportation.

LEWIS: Oh, yes.

McNAMARA: And I was trying to introduce something other than first class for some forms of travel for some people, and that was a serious issue. So, there were those kinds of what were called morale issues. Whether they were morale issues in terms of people feel happy in their jobs, fulfilled, I don't think that was the subject.

LEWIS: Well, in those meetings, some of your colleagues would report that there was concern about this quality business, for example.

McNAMARA: That, for sure. That was always an issue. But, in part--and here, you'll have to form your own judgments--I think in part it wasn't so much--in fact, I think you will find no evidence that quality was sacrificed for quantity. I think what you will find is that people didn't like to be so tightly--we'll call it "managed." There were objectives. And I didn't think then and I don't think now that that was inappropriate.

And let me digress a moment to come back to what I said earlier about development agencies. I think the people who were raising those kinds of issues had to answer this question--I would frequently put it to them, "Tell me, do you believe--forget the World Bank for a minute--do you believe that the developing countries today are receiving all of the external finance that they can efficiently use to advance and accelerate the rates of economic and social advance of their

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people, yes or no? And I think the answer is no. Right, if it is no, what is our responsibility? Is it not to ensure that they receive all of the external finance that they can efficiently use? You think they're not. I think they're not. If they're not, is it not our responsibility to ensure they do?" I mean, you can hardly--you couldn't say they were receiving all they needed and could use. And if they weren't, you couldn't say that it wasn't our responsibility to get them there. I said, "All right. Now, if they're not getting all they need and can use, and if it's our responsibility to get it, how are we going to do it? We've got to set objectives. Damn it, that's where I am. Don't you sit there and tell me that we shouldn't have an objective for your division or whatever. Now, if you think you're going to achieve that by reducing quality, you've got another think coming because I'm going to monitor this and your name is on that project. And one year after all the money is spent, an independent guy, Mr. Jones, Mervyn Wiener's going to come in, and he's going to write a report in writing . . ."

[End Tape 1, Side B]

[Begin Tape 2, Side A]

McNAMARA: . . always an issue, an issue of are we trying to do more than can be accomplished with high standards. And my belief was that we weren't doing as much as the world had a right to expect of us, number one. There was a greater need than we were fulfilling. And we should get ourselves organized and manned to meet that need. And number three, we could do it without sacrificing the quality. And number four, I think the record will show we did without sacrificing quality. You go back over the operations evaluation reports--and I had an occasion to look at some . .

LEWIS: Did you think sort of separately about how am I, as the president, going to motivate this staff to really get out and . . .

McNAMARA: Oh yeah, sure. That part, frankly, I never worried about too much. And I'll tell you . .

LEWIS: Go ahead.

McNAMARA: . . and I'll tell you the reason I didn't. If you deal with what I'm going to call high quality people--and the Bank had high quality people, no question in my mind about that--I never worry about working them too hard. I'd work their tail off, a lot of people. I never worried about working them too hard if, A, they felt they were working toward an objective they believed in, and, B, if they felt they got credit for what they did. Well, I should add one further point. If, A, they felt they were working for an objective they believed in; B, they felt they were in part achieving that objective; and, C, they felt they got credit for what they did, my experience in 40 years of administering people was that they would feel satisfied, and I think they did.

Now, on the other hand, to be measured constantly is difficult. In the Ford Motor Company, in the auto industry, every day I had costs on my assembly plants versus objectives. Every ten days, I had sales reports on Ford sales versus competition, GM. And every quarter I had financial performance reports on rate of return on investment of my company versus my competitors. Boy, I tell you, it's tough to be constantly measured against costs or sales or profits.

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And in the Bank, it wasn't nearly as difficult as that, but still, there were objectives. People had objectives. They hadn't been--and that was a change that was difficult. But I think, on balance, if you ask people today, looking back to the '70s, did they feel a sense of accomplishment, a sense of fulfillment, I think most of them would say yes.

LEWIS: Certainly, there was sort of a--as somebody looking at it from outside and intersecting casually, one had a sense of quite a lot of yeastiness and excitement.

McNAMARA: Yeah. Well, one of the things I tried to foster that I have always enjoyed and I think those kinds of people enjoy, is the yeastiness. You know, when Mahbub ul-Haq goes to Canada to say, "For chrissake, forgive all the loans," I tell you that was yeasty! But I loved him. I loved him. He was terrific.

LEWIS: We're going to have a . . .

McNAMARA: And Hollis was yeasty in a way.

LEWIS: Yeah, he was.

McNAMARA: And that was great.

LEWIS: We've recruited Mahbub. We're going to have a volume of contributed papers from outside perspectives of the Bank. And we are sort of breaking our own rules, because we're going to have a piece looking at the Bank from Japanese eyes. [*Toyoo*] Gyohten is going to do that. And Catherine Gwin is going to look at it from a U.S. perspective, and we've got some other sort of country perspectives, too. But we wanted to have one that looks at this puzzle that the Bank is, by mandate, not supposed to get into politics, and it's up to its elbows in politics all the time. It's an anachronism.

McNAMARA: Yeah, but you have to distinguish between the kinds of politics it's in and the kinds it isn't supposed to be in.

LEWIS: All right. I mean, there is a real puzzle here. There's a—and we tried to get some political scientists to take this on, and we couldn't get the ones we wanted to do it, and then it occurred to us that we could get an interesting slice on this from Mahbub.

McNAMARA: Sure. That's good

LEWIS: And he's going to write this chapter.

McNAMARA: Very good. But if you take--let me give you two or three illustrations of . .

LEWIS: We ought to go.

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McNAMARA: No, that's all right. Let me give you two or three illustrations. I don't know whether you'd call these politics or not.

The German finance minister came into my office one day, and this would have been roughly—it was [Karl] Schiller, so Schiller would have been '72 or something like that. And I was just, in a sense—not only did the Bank only borrow whatever it was I said, 300 million net per year five years prior to '68, but it was almost all in dollars. And I began to reach a point where I thought we should shift out to marks and so on and see what we could get in terms in the capital markets. And in the beginning, Schiller came into my office in Washington. He said, “Bob, you don't have a German vice president.”

I said [inaudible]

He said, “I've got one for you.”

I said, “Well, who is it?”

He said, “It's Peter so-and-so.”

“Well,” I said, “There are two things wrong with that. Number one, he's not competent.” No, I said, “Number one, I don't have an open spot and I'm not going to create one, much as I'd like to. And number two, if I did have an open spot, I wouldn't take [inaudible]. He's no god damn good.”

He said, “You're trying to get rid of him along with me. The hell with that.” He said, “Let me tell you something. Until you take that man, you cannot enter the German capital market.”

I said, “You son of a bitch, you get out of this office.” I threw him out. And I was out of the German capital market. The only thing that saved me was he was going around with a red-haired woman at the time, and he eventually divorced his wife and got thrown out of the cabinet. So I got in the German capital market. I don't know whether you call that politics or not, but I think you have to do that.

Another illustration. I think it was Dave [W. David] Hopper; I'm not absolutely sure. Bangladesh, General Zia [Ziaur Rahman] was president, and they wanted—I don't know; these figures aren't correct, they're illustrative—they wanted to put 50 million a year of IDA money and another 50 or something like that in [inaudible] It was a huge increase. And I said, “No way.” So we went out there, and they were lousy. Their--their rate of population growth was high, their agricultural growth was low, and it was just a miserable situation. So--I'm almost sure it was Dave that was with me--we worked out on the spot a set of objectives: they would do this on population, this on [inaudible] of production, [inaudible] or something or other; and this on strictly agriculture. Then we would do A, B, C, D, and E in financing. And we wrote it down and we signed it. As I say, I don't know whether you'd call that politics or not, but . . .

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LEWIS: No, I think that's quite clearly, I think, within the mandate as I understand it. You can't do your work if you aren't going to influence policy. The closer call now is the Bank is going into--making political conditioning--you know, governance in Africa. God knows it's important.

McNAMARA: Who knows what to do in Africa? Not the Bank. Let me give you an illustration of that--and I know that the European Bank is required by its Articles . .

LEWIS: Yeah, right.

McNAMARA: . . to use political conditionality. But what the hell would you do in Russia today? Are you going to be for [*Boris N.*] Yeltsin or [*Mikhail S.*] Gorbachev? Who knows what in the hell to do there? I don't know what to do for sure in Poland or whatever.

But in Nigeria--Nigeria has had--three out of the last four presidents have been military officers. There's presently a military, in a sense, dictatorship. The military president says, "I'm going to turn it over to civilians in '92." Now, I'm absolutely positive--and I think I believe it. "However," he says, "I'm going to disqualify all previous political parties. They're incompetent and corrupt." He's right. He says, "I'm going to disqualify all civilian political leaders. They're incompetent and corrupt." Where the hell are you going to start? You know, what do you do? He doesn't know. But the Bank doesn't. So, how are you going to introduce conditionality?

Now, there's a guy down working for Carter. I can't think of his--I think his name is Joseph. He's a . .

LEWIS: Yeah, down at Carter Center. Yeah, yeah.

McNAMARA: . . black, he's a black Rhodes Scholar, very bright man. He says, "You can't have economic advance without democracy." That's baloney. I'm a democrat, a small "d" and a large "D," but I was there when Korea advanced economically, and it sure as hell didn't have democracy. But the President of Korea had a gun on his desk at that time. That's the god's truth. You know, he was in bed with the CIA. He was repressive, no question about it.

Taiwan? Chiang Kai-shek? I knew Chiang Kai-shek. I met with him. Democrat? No way.

Lee Kuan Yew, Singapore? No way.

Now, I'm not arguing that governance isn't important. What I'm arguing is you can't--it's not simple, and there is no clear correlation in my mind between economic social advance on the one hand and democracy on the other.

China. Let me say, I'm a heretic, and I'm not expecting anybody to agree with me, but we in this country equate human rights with civil rights. That is not, from my point of view, a proper definition of human rights. The most fundamental human right is to live, and China advanced quote "living" unquote more from '79 to '89 than any developing country I know over a 10-year period. And you look at what happened: literacy, nutrition, infant mortality, life expectancy. Those are fundamental qualities. Now, they did it under a repressive dictatorship. What the hell

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would the Bank have done? Made no loans to China in 1980, send McNamara to tell Chiang Kai-shek to go to hell?

No, so I don't mean to say the Bank should not be concerned about governance in Africa: transparency, less corruption, openness, appropriate judicial system and so on. But until they get some people over there that are not there now, that understand this political process better than those do, I'd be awful damn careful.

LEWIS: This has been great. Can we book another sitting with you?

McNAMARA: Oh, sure, sure.

[End Tape 2, Side A]

[End Session 2]

Session 3
May 10, 1991
Washington, D. C.

[Begin Tape 1, Side A]

LEWIS: . . . *[Attila]* Karaosmanoglu, he went through Tokyo recently and made a statement apparently that the Bank now sees a very close sort of partnership with Japan.

McNAMARA: Yeah. The problem--and I don't want this in anything you quote to others, but I want to mention it because it relates both to what I said there and also to what I say in that military expenditure point—is that the problem is I think one has to lead Japan along, and I don't see that occurring. I mean I--where are those figures in writing from the Bank to Japan that I just quoted?

LEWIS: Right, right.

McNAMARA: That's the issue. Or where are they stated publicly? And this is pretty tough. And I understand you have to, the Bank has to maintain an appropriate relationship with particularly great powers. You can't cut off all dialogue; I understand that. But on one occasion--another occasion just like this--I went to Japan. I was going to see the prime minister, and I wanted to ask him--it was *[Takeo]* Fukuda at the time--and I wanted to ask him for help in gaining access to their financial markets and Japanese help to the Bank. And there, as is customary, they arranged, they insisted I speak to a press meeting, a lunch, before I see the prime minister in the afternoon. So as I walk—so I give them the speech ahead of time; it's printed and translated and everything--as I walk into the room (one of those big dining rooms in some hotel there) and there's the--the table's all laid out, and in front of every place setting was a copy of my speech, printed.

As I walk in, a man comes up to me. I learned later he was the son-in-law of the finance minister. He said, "If you give that speech, we're going to close the Bank office."

I said, "Why?"

"Well," he said, "you make a statement in there that we will not tolerate, we the finance ministry will not tolerate."

"Well, what statement?" Well, had been--it's a long, complicated story, but their prime minister had come (it was during the Carter years) their prime minister had come over here and had made some statement about them increasing ODA *[official development assistance]* or . . .

LEWIS: They were going to double that, I think.

McNAMARA: Whatever it was. So the prime minister gets back to Japan; the finance ministry objects, says, "We're not going to do that."

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I knew that had been going on, so I had put in my speech, I said how pleased I was as head of an international organization to see the willingness of the prime minister to raise the commitment to doubling, if that was what it was. I quoted specifically. Now, the problem was the finance ministry wasn't going to allow that. It hadn't been cleared with them ahead of time.

By the way on, I think it was this same trip--I had arranged it through the executive director--I had asked to see, in this order, the foreign minister, the finance minister, the prime minister. I get back the itinerary; it has me seeing the prime minister first, then the foreign minister, and then the finance minister. I said, "No, no. You misunderstood. I want it the other way around."

Well, they said, "Why?"

I said, "Well, I want to brief the foreign minister, the finance minister, and then I'll go to the prime minister. They will have briefed him, and then he will be in a position to make an intelligent decision on my proposal, and hopefully he'll approve it, but in any event he will have been properly prepared."

"No, no, no," they said. And these are the exact words: "We, the finance ministry"—the executive director of the Bank was appointed by the minister--"we the finance ministry are not going to allow the prime minister to make that decision." Now--and that's the way that country runs. That's why the foreign ministry is paying me money to come there tomorrow to do this because the finance ministry is still running that place.

In any event, I--on my way to the luncheon table, this guy comes up and says, "We'll close the Bank office if you make that speech."

I said, "What the hell do you think I'm going to do? It's been printed up. But anyway, what's wrong with the speech?"

"Well, you stated our prime minister said that. He didn't say that."

I said, "What do you mean he didn't say it? I've got the article that I quoted from."

"Well," he said, "it was in--he meant it in yen."

Now I've forgotten whether it was dollars or yen, but the dollar/yen rate had changed, and the finance ministry--between the date of the speech and my date in the finance ministry--they were not going to allow it under any circumstances, and they seized on that as a basis. They said, "You misinterpreted. He did not mean it in the currency you were using"--whatever it was, dollars or yen, I've forgotten.

And I said, "To hell with that stuff." I said, "I'll tell you what. I can't take it out of the speech. The god damn speech is printed there. I will not in my oral remarks refer to that, but I want you to know after that luncheon I'm going to meet the prime minister--I've already got the appointment--and I'm going to mention this to him. I won't tell him that you told me you were

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going to close the office, but I'll tell him that you said I couldn't say that. And I believe that what I said is correct.”

Well, they--so we go to the prime minister, and I tell him this. And typical, what do you think the decision was? Absolutely typical Japanese! Halfway between the finance ministry and me. That was his decision.

But the point I'm trying to come to, John, is I think today we all need to lean on Japan. Now, the last paragraph I didn't read you is my, in a sense, statement of common interests and friendship, we proceed together and we have these irritations but that's common. And we have a strong relationship--which I believe we do. I don't believe in Japan-bashing. But neither do I believe we ought to let them get by with what they're getting by with. It's a god damn disgrace, and I think the Bank and all of us who have any role to play and have the opportunity to play it must make that clear.

Now, you take the Gulf, which I don't discuss, but I am going to discuss on my following trip ten days after tomorrow. When I go back I'm going to talk about the Gulf. I'm going to talk about the world. Not my view of what they should do, but my question to them: what kind of a world do they see ahead and what do they want? What shape of that world do they want, and what role if any do they want to play in it? They've opted out of the world today. It's none of their god damn business what happens in the Gulf, they say. "We can get by with oil. We don't use that much. We can pay whatever price they ask. We don't care whether Saddam [*Hussein*] goes to Kuwait. We're not interested in a world system of collective security. We don't want the Security Council guaranteeing territorial integrity. We have no interest in any military forces." And I totally oppose them going above the 1 per cent limit or having any independent power to project military power, independent capability to project military power or whatever, but they're just getting by with murder!

LEWIS: What's going to engage them?

McNAMARA: Well, I think some pressure of the kind we--when I say "pressure," I hope it won't, I hope they can be engaged by rational discussion, rational debate.

LEWIS: They're very sensitive to opinion outside?

McNAMARA: That's right! You're absolutely right on that. And there is a--there are some--I never can get the newspaper's name, *Asahi Shimbun*, I think--has got a reporter, Kubiashi is the guy's name (I think it's *Asahi Shimbun*) and we're beginning to--he's come in and I've spent hours with him. He's beginning to pick this line up and they're beginning to play it now. What is Japan's role? Can they feel respectable if they're not carrying their share of the world? I say, "Look, what do you think your objectives are in the world? Do you believe in protecting the global environment?" Well, they can hardly say no.

But in November when I was there--I think it was last November--there was a conference in Belgium. And the headlines in the Japanese papers--it was on climate--and all of the nations at the conference agreed on establishing objectives for reducing fossil fuel emissions except Japan,

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the U.S., and the Soviet Union. I don't remember why Japan didn't agree, but I know why the Soviet Union and the U.S. didn't agree; that's obvious. But the headlines in the Japanese papers, English papers, said, "U.S., Japan, Soviet Union Hold Out."

So I said to them then, and I spoke publicly then, "What's your view about global environment? Do you have any concern about the global environment?"

"Well, we can't say we don't have a concern, and it isn't just the atmosphere; there are lots of other things, but . . ."

"All right, so you're concerned about potential climate change. Do you feel that nations should agree, have some kind of a compact?"

"Well," they say, "Yes."

"Well, what about the developing countries? Should they be allowed to increase their GNP per capita? After all, climate change is in effect a function of population growth, consumption growth per capita, and fossil fuel emissions per unit of consumption. So those are the three factors. Now, is China's population going to grow above 1.1 billion?"

"Yeah. Right. It's 1.6 already."

"Is their consumption going to grow per capita?"

"Well, they said they're going to increase it several-fold. Yes."

"Should it?"

"Yes."

"Is the energy consumed per unit of GNP going to increase or decrease or stay the same?"

"Well, it probably should decrease."

"How much? And what form?" Well, then you get—"And how much is that going to cost? Are there not up-front costs? Are you interested in what China's doing? Why should you be concerned about cutting your own fossil fuel emissions? If theirs multiply several-fold, it will offset your cuts. Why spend the money cutting yours if you're not going to stop them doing theirs?"

"Well, that's right. They've got to stop."

"Well, how the hell are they going to pay for it? Where's the up-front money coming from?" Even if Bob [*Robert H.*] Williams at Princeton (or whatever his name is) is correct and ultimately we can finance all this with a profit, which I doubt, but if we could, even Williams will admit there's up-front money has to be invested. "Where's it coming from? Should Japan

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play any part in it?" So you take them down that line. "What about development systems? Are you in favor of helping the developing countries move ahead?"

"Well, we could say yes to that."

"All right, what about security? Do you feel that you want a secure Pacific?"

"Yes."

"Do you want to increase 1 percent?"

"No."

"Well, I don't want you to either, so, we agree on that. But now we've got three common objectives: environment, security, development assistance. The OECD [*Organization for Economic Cooperation and Development*] countries are spending roughly three and a half percent of GNP to support those three. The U.S. is spending roughly five and a half percent"--disgraceful portion of the five and a half percent is .21 for ODA—"you're spending on yours one and a half. That's a god damn disgrace. We've agreed on the three objectives; they're spending three and half; we're spending five and a half; and you're spending one and a half. How do you answer that?"

Well, you know, they don't. They haven't discussed it. It hasn't come out in their—so my, I come back to the point, and this I think is really the only reason I'm taking your time on this. This is, I think, is a part of the book on the Bank ought to be not what I did but what the Bank should do. What is the role of the Bank in this world? I think the role of the Bank in the world is to bring these kinds of problems forward.

LEWIS: Right, right.

McNAMARA: I don't mean it hasn't been doing it. Don't misunderstand me. I'm not making any comment on what the Bank is doing or is not doing. What I'm commenting on is the nature of the world that lies ahead and the way I think the Bank can and should lead with respect to it, and I would say further the world that we've passed through and the way the Bank can and should.

LEWIS: One thing is probably going to change most slowly is the dominance of the finance ministries.

McNAMARA: Oh, in Japan, you're damn right! And therefore . . .

LEWIS: Do you know Gyohten?

McNAMARA: Yeah. He's . . .

LEWIS: He's the best one there.

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McNAMARA: He's the best one, absolutely. But they've had other people like that. [*Yusuke*] Kashiwagi was like that. Did you know Kashiwagi?

LEWIS: I didn't know him . . .

McNAMARA: Yeah, he later became president of the Bank of Tokyo, I guess it was, but he had been vice-minister for—that's Gyohten's job. They have had very good people in that job, but still an extremely conservative minister, and I have never understood where that mindset in the finance ministry came from, whether it originated in the ministry or whether it was a function of the LDP [*Liberal Democratic Party*] party that in some fashion affected the ministry. I really don't . . .

LEWIS: I don't know that. I certainly don't.

McNAMARA: I do know that you can change them, but it's darned hard! And the U.S. has made it more difficult. You know, the idea that the U.S. wouldn't let Japan have a larger vote in the . . .

LEWIS: Yeah, that's right.

McNAMARA: We said to them we (the Bank) needed their money. The U.S. wanted the Bank to have more money, but the U.S. said, "We won't allow Japan to put up more money because they want to go from five percent to six percent of the vote, and we won't permit that."

And the god damn—and we say to the U.S., "Why?"

"Well, that might erode our veto power."

Well, what in the hell is the worth of your veto power anyhow? It isn't worth anything! So here you are, spitting in the face of Japan, saying, "We refuse to allow you to put up money into the Bank, because we won't give you another one percent of paper votes that are worthless." It makes no sense.

So part of the problem is not Japan's fault.

LEWIS: Right, right, right.

McNAMARA: Anyhow, I'll come back. I'm taking you way off your subject.

LEWIS: No, no, no, no! This is very much . . .

McNAMARA: But this is managing the Bank.

LEWIS: Sure, sure!

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McNAMARA: And if you look ahead, the reason I gave that speech on March 25th—or I guess it was on April 25th—is that I think one of the major initiatives the Bank can take in the years ahead in this fluid world we're in--it's totally—it's the first time in my life, the first time in 45 years, the world has been fluid enough to address some of these fundamental questions, particularly the risk of military conflict and the levels of military forces and the levels of military expenditures. And one of the Hill leaders called me today and said did I still believe after the Gulf, as I testified a year or two ago, that I thought the U.S. military expenditures as a percent of GNP could be cut 50 percent in the next six to eight years, and my answer is, "Yes, sure, I think it can be." And I think that this same fluidity, same environment, same post cold war environment will permit a cut of 50 percent in third world military expenditures, where in a sense it's even more important to them than cutting ours. There is no automatic transfer--I know that--between savings in military expenditures and increases in health and education expenditures, here or there. I know that. But a cut of 50 percent in the third world as a percent of GNP devoted to the military would be a major advance, and the Bank can help lead the way.

LEWIS: What do you say to people who say, "Why didn't you push for that when you were president in the '70s?"

McNAMARA: Well, in the cold war era that was impossible, absolutely impossible. You know, it's—when I was Secretary I was bringing, before that damn Vietnam War, I was bringing--if you look at the figures you'll see that the Defense Department . .

LEWIS: No, no, I mean pushing for . . .

McNAMARA: No, no, no! Wait a minute. I know, I'm just going to come to that, but I was just saying that as Secretary I was bringing down defense expenditure as a percent of GNP. And we would have [*inaudible*] any lower, if it came down say six and a half to five or something like that, and it would have gone lower had not Vietnam come in. Now, the reason it didn't go through was the cold war. And you couldn't convince Pakistan or Egypt to reduce their military expenditures when the U.S. was, as part of the cold war, was seeking to line up Pakistan as an offset to India and seeking to line up Egypt as an offset to the Soviet Union. It wasn't that I as Bank president was in favor of that, but there was no argument I could possibly make that would overcome Pakistan's dependence on the U.S. and Egypt's dependence on the U.S. It was impossible in the cold war to do that, but today that can be done regardless of whether the U.S. wants it done.

LEWIS: And even--you couldn't have really tried to push that, say, in Latin America because it'd just--the analogous inequity between one set of developing countries and another set.

McNAMARA: That's right, that's right. It was easier in Latin America than elsewhere, both when I was Secretary and also when I was at the Bank I did talk to Latin America. When I was Secretary I refused to sell planes to Chile, Argentina and Chile. The Argentinean problem was a serious one. I've forgotten which one wanted to buy airplanes from the U.S. producers, and as Secretary of Defense I refused to permit it, and they went and bought them from the French. So there was limited capability to do something in Latin America.

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LEWIS: As you know, there was some history in the Bank. Your predecessor did lecture the Indians on military spending.

McNAMARA: Oh, the Indians after . .

LEWIS: After the war.

McNAMARA: . . but after the Chinese invasion of--what was it, '62?

LEWIS: '62, yeah.

McNAMARA: '62. The Indians just--they became totally irrational. And Muraji Desai I think was deputy prime minister then, if I recall correctly, and B. K. Nehru was ambassador to the U.S. when I was Secretary. So Muraji Desai came into my office as deputy prime minister, and he wanted to—I don't know--buy something or other from us, some kind of weapons, and B. K. was with him [*inaudible*] And you just couldn't believe the scene. Here was a Secretary of Defense, the presumed "Butcher of Vietnam," and here was Gandhi's disciple. And I in effect said, "God damn you, it's absurd! You're ruining your country! You let those Chinese come in, and you had a lousy defense against them. It could have been much better. You didn't need more money; you just didn't use your troops right!" You know, they took troops off the plains of India and they sent them up to 12,000 feet. Among things they came down with pulmonary edema. It was the--the whole thing was a Gilbert and Sullivan comedy. I said, "And now, because you screwed that up, you think you can take care of it by raising your defense expenditures." They'd raised them from I don't know what, such as one and a half or two up toward five--I think it's around three and a half now, but it was around five. I said, "There's no way. We will not sell you that material. You ought to reduce it!!!" And B. K. Nehru, and I'm not exaggerating, he absolutely exploded with laughter. Here is the "Butcher of Vietnam" lecturing Gandhi's disciple to cut back his military. And they got into such a fight! Desai took offense at B. K.'s merriment, and he turned around to B. K. and he gave him unshirted hell and the two of them got into such an argument they had to leave my office!

LEWIS: That's a great story.

McNAMARA: You cannot believe it! It was absolutely hilarious. And to this day India is spending too much. But my point is that then I did talk to Indira Gandhi some about it, but you know, certain things you couldn't do, and that was--at the time in the cold war period—that was one of them.

Today, I think--when I gave that speech there was a Q and A afterwards, on April 25th, and somebody said, "Well, how are you going to handle these problems? You've got Pakistan and India, age-old enemies, fighting over Kashmir. It's absurd to say that you can just cut their military expenditures in half without addressing the underlying problems." And I agree with that, but I said, "There isn't a military budget in the world I can't take 20 percent out of without

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changing the security balance.” And I believe that with respect to the India and Pak situation. At the same time, I think one can begin to address the underlying conflict there.

LEWIS: Yeah, we at one time in the CDP [*United Nations Committee for Development Planning*] had a notion that in cases like that where you had clear confrontations you would have sort of paired deductions until you get the two parties . . .

McNAMARA: Absolutely, absolutely. No question about it. And I tried that with the Soviets one time, what I call parallel unilateral actions, because if you have to negotiate them it gets very difficult. So we said to the Soviets at one point--this was around '64, '65, in that period, before we really had the big expansion in Vietnam--we said, "We think you're in effect liars and cheaters. We don't trust you one bit, but we have means of knowing whether, what you're spending on defense. And we believe it's in our common interest to lower defense expenditures, and we will cut ours by one percent or whatever or one point or whatever if you will do that, and we won't have any negotiation. We'll just know whether you did it. And if you don't do it, we'll reverse ours." And they and we thought we were going down that path. And then they felt we violated the statement because the Vietnam thing came in and we had to expand ours for that, but I think that's a very good way to deal with some of these complicated problems.

As a matter of fact, I'm proposing now some negotiations with the Soviets or discussions with the Soviets that kind of action on nuclear forces beyond the START treaty, and I think it's entirely possible. It's absurd that we have . . .

But I come back to the point, and I think it's your point, that the Bank can take the lead in various issues relating to the third world. But at certain times there are rigidities that you can't go beyond, and the cold war was one rigidity. You could not, the Bank couldn't break down an action that was stimulated by the cold war. That was an overwhelming force you couldn't deal with. And there were certain others, for example, it was absolutely impossible to move Indira Gandhi toward liberalization in certain parts of their society, their economy, at a certain time. I think up until recently it would have been absolutely impossible for the Bank to inject governance into its discussions, corruption, for example. It could insist that its actions be handled in a non-corrupt way.

LEWIS: Did you even get into corruption?

MCNAMARA: Oh, yeah, but I made no progress on it. Zero. I insisted that the Bank's actions be handled on a non-corrupt basis, and I objected to others, but I'll never forget the first--I went there April 1, 1968. Either the first or second trip I made was to Indonesia. I had noticed one Saturday we'd made zero loans to them, and I asked why, and they said, "Well, it's Sukarno. It's--you know, they had 600,000 percent price inflation in this country, ten years, the last the ten years of Sukarno."

So I said, "Well, he's gone now." So I went out there, three months after I came to the Bank, just to see what Suharto wanted. Well, I ran into the "Berkeley mafia" and they had had--they had been to the University of California for their Ph.D.'s on Ford Foundation fellowships. They had

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had the same professor of economics for their Ph.D.'s I'd had as an undergraduate, Malcolm Davisson, so we got along famously.

And but anyhow Suharto thought he had to deal with this guy, McNamara, and so he had a luncheon. And I was sitting next—well, they thought, “What do you do with an ex-Secretary of Defense?” They didn't think of me as president of the Bank. Well, they sat next to me the Chief of Naval Operations. The last thing in the world I wanted to do would be talking to the Chief of Naval Operations. I was trying to think what to say to him, so I finally said, "Would you mind if I asked a personal question?"

He said, “No.”

I said, "Would you mind telling me what your compensation is?"

He said, "No. I'd be happy to." He says, “It's”--I may be slightly wrong on the dollars--but he said, "It's 20 dollars a month plus rice rations for each member of my family. There are six members of my family, so I get six rice rations plus 20 dollars." You know, that tells you all I need to know about them.

I'll tell you, I did act on Indonesia on two different corruption issues. One, I can't think of the name of the general who was head of Pertamina. It wasn't Sasakawa, that's the Japanese guy, but it began with an S, General S.

LEWIS: Yeah, okay.

KAPUR: [*Mohammad*] Sadli?

McNAMARA: Pardon me?

KAPUR: Sadli?

LEWIS: No, no, Sadli was not the . . .

McNAMARA: No, no. Sadli was a minister. General S; similar to Sasakawa. And I was told by a person I think you knew in the foreign service that, just casually, that this General S. spent a million dollars on the marriage of his daughter, hired a jet plane to bring in the flowers. And I began to dig into it, and out of that came--we weren't the only ones working on it--came that whole exposure. They had--that was the only thing the “Berkeley mafia” didn't control was Pertamina. And they had diverted—now that was just 18 years ago; my memory may be wrong as to the amount--they diverted as much as 8 billion dollars--they had retained 8 billion dollars that should have gone into the national treasury because the “Berkeley mafia” was not strong enough to force them to adhere to the government policies. They diverted 8 billion dollars--not into their personal pockets, although some of it went in their personal pockets--but they were buying German steel plants and bringing them into the--and of course along the way paying

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corrupt people commissions and so on. It was a god-awful mess. And we pushed them very hard, and we got that changed. Other people *[inaudible]* coming in on it, too.

LEWIS: You pushed them and got the management of Pertamina changed?

McNAMARA: No, we got the—no, I think the general--they never could touch him, but we got, we supported the “Berkeley mafia's” insistence that Pertamina adhere to all other corporations and put their earnings at the disposal of the government and not direct them to themselves and particularly not waste them the way they had been wasting them. It was a real scandal.

And then there was a case of the son of the American justice on the Court of International Appeals--you'd know the name; it slips my mind—was the manager of Alcan's company in Indonesia. And he--it's a long story; I won't take *[inaudible]*--but he was being shaken, he was being shaken down and the company was being shaken down. And the vice-chairman of Alcan had worked for me—he was a Canadian but he worked for, at least he was working for a Canadian company--but he had worked for me in the Defense Department. And he called me and said that--I wish I could think of his name; his father was a very world-famous guy--anyhow, the vice-chairman called me and said that they were being shaken down and could I do something. I said, “Hell, we're not the monitors of every corrupt act in these places. I don't know what I can do. I just can't help. I'm running the Bank.”

But the more I thought about it, the more unacceptable it became, so I called Bernie Bell, while he was out there, and I said, "Look, Bernie. We can't tolerate this any more. We've got a good reason to go in there and interview them on the grounds that if this is the way they're dealing with private capital, private capital won't go there. If private capital doesn't go there, we're substituting for private capital and that's a waste of our resources and we shouldn't tolerate it, so you try to do something about it."

So he went and he got it turned around, but it was a really nasty situation. The guy was going to be put in jail because he refused to be shaken down, and the vice-chairman told me they had an 800 million dollar investment there, and they hadn't paid one dollar in graft of any kind. And if that's true, it's about the only major company that hadn't . .

LEWIS: Must be, yeah.

McNAMARA: . . because they were really *[inaudible]* It's alleged, and I think with some justice, that Mrs. Suharto was involved in all of this stuff.

But Nigeria was one of the worst places. *[inaudible]*

Thailand was very bad. The military in Thailand was terrible.

WEBB: Zaire?

McNAMARA: Pardon me?

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WEBB: Zaire?

McNAMARA: Zaire was just awful. Gabon was the worst.

LEWIS: Oh, yes, yes.

McNAMARA: [*Albert-Bernard*] Bongo.

LEWIS: Bongo. Yeah, his statue was all over.

McNAMARA: But the French knew all along, and they tolerated it. And they paid him off by financing that railroad. We refused to finance the railroad. It was totally uneconomic. I've forgotten what it was; six, seven hundred million dollars or something.

LEWIS: Now, you had a fair amount of tension with the French about West African countries at the time. (both talking at once)

McNAMARA: Yeah, that's right. And [*Valery M.*] Giscard d'Estaing was finance minister at the time--[*Maurice*] Schumann was foreign minister--but he and I got along pretty well together (I'll see him a couple weeks from now) because I could prove to him that we were doing more for French West Africa. That's all. As far as the Bank was concerned, that was about the only thing he was interested in. And we did do more for French West Africa, as a part of doing more for all of Africa, but we refused to go along on some of their projects, their sort of "white elephants" that they . . .

LEWIS: Like the Senegal River.

McNAMARA: Exactly, exactly. That Senegal River basin project was disgraceful, uneconomic, but not as bad as the railroad in Gabon.

LEWIS: Let us ask you about some cases of conflict between members. Go back to the India-Pakistan case. Anyhow, in 1971-2 the Bank took a position--didn't it? Didn't you take a position that was certainly very, quite a distance from the [*Henry A.*] Kissinger . . .

McNAMARA: Well, let me tell you an incident--I assume that just this free stream of consciousness talk is not necessarily going to be quoted that way in your . . .

LEWIS: No, we'll be very careful about what we . . .

McNAMARA: But the point you're making about the Bank in relation to in a sense its major stockholders' foreign policy objectives and whether the Bank supported those, was guided by them, and so on--you know, we had a Board meeting every Tuesday and every loan and credit had to go to the Board. And on a Friday Bill [*William P.*] Rogers, the then Secretary of State--not the economic Rogers, the other Rogers--Bill Rogers called and said, "Bob, you've got to take those two Indian loans off, two lines of credits off the agenda for Tuesday."

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I said, "Why?"

He said, "Well, they're no damn good."

"What do you mean, they're no damn good? They're very good."

"Oh," he said, "now you're tilting toward India."

Now, that was at the time when the U.S. was trying to support Pakistan in different ways and so on. I said, "Hell, you're so biased toward Pakistan you don't know which way is up. Those are good loans, they're good credits, and I'm not going to take them off the agenda."

He said, "We won't allow it."

I said, "What do you mean, you won't allow it?"

He said, "We just won't allow them to go through."

I said, "Look, you get your votes, and I'll get mine." Of course, so we came in there . .

LEWIS: This would have been in '71 then, right?

McNAMARA: Well, I'm not saying it was '71. It was when Rogers was Secretary.

LEWIS: But it was before the war, right?

McNAMARA: Well, it was before Kissinger became Secretary, that's for sure, because Rogers was still Secretary. And I don't know exactly when it was, but it was when the U.S. was obviously trying to support Pakistan and not India.

And so I refused to take them off. And of course I rounded up the votes and went in there, and we won and they lost.

But, no, we had some pretty tough arguments over things like that. And it didn't endear me with the administration, but we never failed to get our capital increases and our IDA. The IDA lagged sometimes, but we always got it.

LEWIS: There was that--in terms of your position on India versus Pakistan and what became Bangladesh, there was not a great debate within the institution about this. It was your own position, I take it. I think--most good people favored that position, as far as I was concerned, but . . .

McNAMARA: Yeah, but I don't think there was a big debate on it. There were debates over tactics. I happen to have been in--I was in India at the time the Bangladesh-Pakistan fighting ended or came close to ending. I happened to be in India, so I chartered a small plane and I flew

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from Calcutta to Dacca really before the fighting had all subsided. They were still firing small arms. The reason I chartered a plane was that commercial air service had not been reinstated.

LEWIS: The Indians were in there now?

McNAMARA: No, it would have been--it was just the end. Sheikh Mujibur [*Rahman*] had just come back.

LEWIS: All right. It would have been December '71, January '72, something like that.

McNAMARA: Something like that, yes, in that area. I'm not sure of the dates.

But in any event, the commercial air service had not been reinstated, and I chartered a plane to go down there because I thought it was very important that the Bank appear to be sympathetic to Bangladesh, not standing on the side. I've forgotten all the politics of it at the time, but there were people who wanted us to stand aside. There were people who opposed, initially were opposed to separation of East Pakistan from West Pakistan, and then when Bangladesh in effect became independent, there were people who opposed immediate support of it. And there were arguments about how the debts were going to be split and there were [*inaudible*] time. The net of it all, a lot of different people had different arguments, but they all related to keeping the Bank out of immediate contact with Bangladesh, and I thought that if we stayed clear of this that it would be very difficult--if we appeared to be doing the bidding of some of these great powers, it would be very difficult for us to establish a sound relationship with those folks, so I thought I would just get in there early, which I did. And we had a very good relationship with Bangladesh.

LEWIS: You put Just Faaland in there, I think, as . . .

McNAMARA: Pardon me?

LEWIS: Just Faaland was your representative

McNAMARA: Yes, that's right, exactly, exactly. And we got along very well, and then of course Hopper came in after that. I've forgotten when Hopper came, but maybe '72 or something like that. In any event he got along very well with General Zia and the earlier general who was in the presidency. And I did, too, and I went over there and Hopper and I worked out a deal or an agreement with the president that was really superb. They wanted a, something like a four-fold increase or five-fold increase in IDA. I said we couldn't possibly do that, but we would over a five-year period we would work out a very substantial increase, two- or three-fold increase in IDA if they would meet certain conditions. And we actually wrote them down: increased use of contraceptives, expansion of rice production, expansion of exports, and so on. And they were moving in that direction when the president was killed. But what I'm trying to say is I think that the Bank can play a very important role in helping these countries move in directions that are in their national interest even though they are quite controversial.

Today I'll give you an illustration of what I think could be done. I was arguing with one of the U.S. executive branch executives at lunch about China, and I wasn't really arguing with him as

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much as I was with the Congressional representative that, who was saying the executive branch was wrong in its wanting to take away most favored nation status and so on. And I said, "Hell, you people should have"—oh, and the conversation started in a sense on my April 25th speech: "Well, what are you going to do about proliferation, particularly missiles, all these countries, China supporting Algerian nuclear and selling missiles all over the world?"

I said, "Well, the way to deal with that is that you've got to get some leverage, and what you should have been doing is supporting the World Bank with a lending program of two billion a year to China. And then you go to China with the Bank--which I would have done if I had been at the Bank today--say to China, 'Look.'"

Well, let me digress a moment to say a month ago I was with two Chinese, one from Beijing, the deputy director of their strategic institute and the other one a designer of their ICBM, who is now a professor at Stanford. This was at a meeting at UCLA in La Jolla. I said, "We've got to get control of these weapons of mass destruction, including missiles, and that certainly includes the Chinese deliveries to third world countries."

And the Stanford professor, Chinese, said, "Well," he said, "that's under the control of the children of the leaders."

The Beijing Chinese said, "You're absolutely wrong. That's not correct."

And so they argued back and forth and finally the Beijing guy said, "Well, you're wrong. It's not the children," he says. "It's the son-in-law." So the--but he goes on to say, and this is the important part--he said, "Look, *[inaudible]* academic difference." He said, "Sure, the son-in-law's involved. He gets a cut and so on, but it doesn't make any difference. If it weren't the son-in-law, we would be doing it anyhow. We need the convertible currency. That's why we're doing it."

And the Stanford guy says, "Yeah, and you're designing a new missile especially tailored to the third world markets."

You know, that's a terrible thing. So I said, "Well, I'll tell you what I'd be doing if I were president of the Bank. I'd say, 'Look, you need the currency. You're going to make 300 million dollars a year or whatever it is from selling those damn missiles. You can choose between that 300 and my 2 billion. And you make up your mind.'"

[inaudible] that way; I know that. But my point is I think today there are these issues the Bank should be working on, as there were--a counterpart was population with us, and we did work on it. I was in—I was in Mexico visiting a guy who later became president of the Inter-American Bank--in Mexico.

WEBB: *[Antonio]* Ortiz Mena.

McNAMARA: Ortiz Mena. He was Finance Minister of Mexico at the time. *[Luis]* Echeverria was running for President, would have been between June and December or whatever year it was

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Echeverria ran for president. So, I'm in Mexico City meeting with Ortiz Mena. The headlines on the paper say--Echeverria was in the north campaigning. Well, you know he'd won already. As soon as you get the nomination, you've in effect won, but campaigning to build up support and so on. So the headline says, "Echeverria"—now these weren't the exact words, but in effect says, "Threatens to Throw McNamara out of Mexico if He Continues to Demand that Mexico Accept Population Planning as a Condition of World Bank Loans." Well, I had never made any such condition, obviously. Obviously, I knew I couldn't condition Bank loans on their acceptance, but we were talking to him about population planning. That part was correct. And god knows we should have, because whatever that--Echeverria would have been, what, twelve [*inaudible*]-well, it would have been at least twelve years ago, maybe eighteen years ago.

WEBB: That was post '70.

McNAMARA: Okay, around then, so it was time--you know, they had no population planning program at all, and they were fighting it like hell. So we were talking--the fact is we were talking about it, but we never made any condition. I knew that was impossible. So I said to Ortiz Mena, "Look, you get in touch with that son of a bitch and you tell him that if he says that once more, he's going to be right. I'm going to stop all lending from the Bank if he puts out untruths like that." Well, we never heard any more about it.

But the point I'm coming to: I think that the President of the Bank and the Bank must take positions on these things. I'm being—I'm using shorthand now; I'm not as brutal as I sound or as insensitive as I sound here, but what I do want to indicate is I think the Bank must lead, and at times it has to become very controversial in the process. That statement I gave, the April 25th statement, suggests that multilateral institutions and other OECD sources of finance should in some fashion condition financial flows on reductions of military expenditures in the third world. Well, that's a damn controversial thing. However, there is a report--and I'll bet you never heard of it--called "Facing One World" that was the report of a committee chaired by Helmut Schmidt.

LEWIS: You have mentioned it there.

McNAMARA: I mentioned it--that dropped like a pebble in the sea. Nobody ever heard of the damn thing, but it's a pretty good report. It's not primarily on military expenditures, but it is on the third world. And Schmidt chaired it, and it had on it [*Olusegun M.*] Obasanjo of Nigeria, the former prime minister or the then prime minister (I've forgotten) of Korea and the former prime minister of Peru. And I think--oh, and Minister [*Jesus Silva*] Herzog of Mexico--and they all agreed to that conditionality.

LEWIS: This quite recent, this report?

McNAMARA: Report came out--the committee was set up in '87; the report came out in '89, something like that.

LEWIS: What about Chile?

WEBB: John, could I just . . .

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LEWIS: Please.

WEBB: On that line of the World Bank's role, would you go one step, suggest that the president be a non-American [*inaudible*]

McNAMARA: Yeah, I--I don't want this in the book, but I will tell you--I had announced my departure a year before I became 65. I said I was going to retire effective at the end of my . . .

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

McNAMARA: . . . and the elections, of course, were coming up in the fall of '79, and I-- it seemed likely that the . . .

LEWIS: You mean the fall of '80?

McNAMARA: No, the fall of '79.

LEWIS: You mean the U.S. elections? Elections would be in '80.

McNAMARA: Well, '80. Oh, I'm sorry. I retired in '81. I'm all mixed up! My 65th birthday was June 9, '81, and it shows how—June of '81, therefore in June of 1980 I announced that I would retire a year from then. And moreover as the elections were coming up in the fall of '80 and I thought Reagan might win, I felt that--and I don't remember whether this was just before or just after the election--that I shouldn't--try to get Carter to nominate my successor but do it with the concurrence of Reagan. I guess it was maybe after the election before the inauguration. In any event, I knew that Reagan would have a voice in it, and I thought that they might put up a very conservative candidate, and therefore I stated that—I gave two lists, one a list of U.S. citizens and one a list of non-U.S., and said that if an appropriate and competent U.S. citizen were not nominated, I was going to recommend to the Board a non-U.S. citizen and I had a list of them.

And one of them--and I don't think this is kind of thing that should be in your book, but I'll just mention one of them you'd be interested in--was an Australian citizen, Jim Wolfensohn, who is now a U.S. citizen. He would have been a superb president. He had been a manager of [*J. Henry*] Schroder's in London and he had been—he was, at this time he was a significant financial executive in New York and he, of course, since has set up a very, very successful investment banking . . .

But--and there are others. And my point is that I think that there may be other reasons for having a non-U.S. citizen, but if a competent U.S. citizen is not put forward, there certainly should be a non-U.S. It might be wise to have a non-U.S. for other reasons.

WEBB: Especially if the Bank is going to play a more multilateral role, take more initiatives of a general political kind . . .

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McNAMARA: I really don't think having a U.S. citizen as president prevents the Bank from taking these initiatives, and it might even--in this post-cold-war world—it might even, there might be an even stronger argument for having a U.S. president in the post-cold-war world than in the pre-post-cold-war world. I think I say in that statement, April 25th statement--I know I do in others, and I'm almost sure I do there--that I favor a world based on collective security with collective decision-making which is going to be very, very difficult for the U.S. We're not accustomed to collective decision-making. It's going to be damn hard. But I say in that world of collective security, collective decision-making, there will be need for a leader, and I don't see any alternative to the U.S. leading. I'm not speaking particularly of the Bank. I'm not speaking of the Bank at all with respect to that, but I think one could argue that with respect to the Bank in this post-cold-war world, this world of change, greater opportunity for change, both between the developing countries and the developed and within the developing countries, that U.S. leadership is not inappropriate--let me put it that way--if it's based on collective decision-making and it's enlightened leadership.

LEWIS: Have you ever thought about or discussed at all the contrast between the Bretton Woods institutions and the U.N. on that issue when the U.N. has gone for a full-time leader who deliberately appears picked from a very small country.

McNAMARA: The U.N. has gone for leadership that is intended to be and predictably will be ineffective.

LEWIS: Nonthreatening?

McNAMARA: Nonthreatening. Yeah, in fact, that's much better, restate. The U.N. has--for forty years the U.N. has intentionally moved toward nonthreatening leadership. And the great powers, particularly U.S. and the Soviet Union, have intended that it should. That, I think, is changing. I hope it's changing. The post-cold-war has ended the desirability--if there ever was a desirability about it--has ended the desirability of that, in my opinion.

LEWIS: Now Bretton Woods institutions have gone for a leader from one of the big blocks . .

McNAMARA: Right.

LEWIS: . . and I suppose that logically, if Japan were to go in the direction you were preaching, that there should be a Japanese president of the World Bank before very long. The trouble is whether they are prepared to take that on.

McNAMARA: Yeah, I would say--I would still favor picking the most capable individual among--I think it should be from, I think the individual should be from among the major sources of finance. I don't think today a developing country leader would be appropriate simply because they're not in a major source of finance. It is still very important to get IDA capital increases and so on. But I would certainly favor a Japanese if he were of a Gyohten type or Kashiwagi type.

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I offered a job to Kashiwagi as a vice-president, would have been delighted to have him, but typical of the Japanese situation he had a son in high school and he couldn't take him out and bring him over here. If he had he would have not found it possible to enter the University of Tokyo. If you can't enter the University of Tokyo, you're just not likely to move forward.

LEWIS: I gather that [*Barber B.*] Conable offered Gyohten a senior vice-presidency.

McNAMARA: I think so.

LEWIS: Let me go back to--I was going to ask you about the U.S. role in the Bank and about Chile. Was that a matter of tension?

McNAMARA: Well, I can't remember. Most of these things were tension, but they didn't particularly bother me. The U.S.—you know, it was thought that the U.S. problems--the Bank's problems with the U.S. started with Nixon. That isn't true. I think if you go back--and you should check this--but I think I'm correct in saying that there was a zero IDA in fiscal year '68.

LEWIS: I think that's right. IDA was--they couldn't get the replenishment, that's right.

McNAMARA: Yeah, so--and I never failed to get an IDA replenishment. I had, on every single IDA replenishment for the 13 years I was there, I had a hell of a time with the U.S., and I developed a strategy. My strategy was going without them. A lot of people thought that was wrong. It wasn't wrong. I knew damn well if I went ahead without them they'd be pulled along eventually. And they were, every single time.

And to go ahead without them I had to get somebody to lead, and I used different people. And so I got the British--it was either Jim [*L. James*] Callahan or the present chancellor of Oxford, Roy Jenkins. Another time I could sometimes get the Dutch, Pronk. One time I had Abdlatif Al-Hamad from Kuwait, and the meeting was in Finland, the pledging session. And Kuwait came up and said, "We will do this. We'll double," or whatever it was, "regardless of what the U.S. does," and that brought others in.

So my simple point is that the U.S. has been a problem on development assistance--as you know better than I--for 30 years, since Doug Dillon and the [*Dwight D.*] Eisenhower administration and that's when IDA was set up. Or I guess maybe since Kennedy; I don't think we had troubles over that. But I'm almost sure that '68 was a hiatus.

LEWIS: Oh, there was. Yes. That was one of the things that screwed up the Indian situation, that there was no IDA.

McNAMARA: Well, I never lost. I never failed to get IDA through, and I never failed to get a capital increase through, but it was sure hell to do it.

So I--my point is I don't think you can buy the U.S. support. You've got to buy it every day all over again. And you deal with--and again I'm speaking, I don't, I obviously don't want to be quoted on things like this--but you deal with impossible people. [*David R.*] Obey. Isn't Obey a

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supporter of foreign assistance? Isn't he a liberal Democrat who could be depended upon to support good things in the world? Everybody says so. He gave me a hell of a time! You know, he's always, "Well, McNamara, yeah, we'll be right there with you, but of course you've got to change the debt policy, and you've got to do this or that or the other thing"--things I couldn't do, things that shouldn't have been done anyhow. He's still doing that, and the result was between--well, Joe [*Joseph P., Jr.*] Kennedy did the same damn thing last year. He held up support of, oh, I don't remember what it was--IDA or something or other for the Bank. He wanted . . .

WEBB: Edward Kennedy?

McNAMARA: No, Joe Kennedy, in the House.

LEWIS: Oh, Joe, the congressman, in the House.

McNAMARA: And he came in here . . .

LEWIS: Robert's son.

McNAMARA: Yeah. He came in here and talked to me about it, and now I can't what it, I can't can't even remember what it was; it was one of these off-the-wall things. But he was on the committee that--I guess it was the subcommittee of House . . .

LEWIS: Appropriations?

McNAMARA: . . . Foreign Affairs and/or Appropriations. I've really forgotten which it was. But you had liberal Democrats on the one hand and the hard right on the other and it was impossible. So I just figured out if we just went ahead, ended up pulling it out, and that's exactly what happened.

LEWIS: There was a news report, was it, about Vietnam? Did you write a letter?

McNAMARA: Oh, Chile. We haven't--we'll come to Vietnam, yeah. And Chile--well, I don't even remember what the U.S. asked us to do on that. Most of the thing--most of the time what the U.S. asks is just absolutely wrong. Papua New Guinea. Now, Papua, there is a case where--we got more pressure on Papua New Guinea than anything else. And the reason was that we were going to finance a palm oil project, as I remember. And the--I don't remember when this was; it was during the Nixon years, and it would have been, I don't know, '72 or '74, something like that. And the problem was that there is, if you look at the world palm oil markets and soybean markets, they are sort of like this; they're almost totally independent, but there are certain uses where they compete. And Nixon at one point--I may be wrong on the details of this--but the soybean crop in this country was hit by something or other, and so he put an embargo on soybean exports. And the result--of course most of it went to Japan, and the Japanese were absolutely incensed. And they thought, by god, they'll never get in that position again. So they put Brazil in the business of producing soybeans, and within a short time, two to five years, Brazil became a hell of a big soybean . . .

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LEWIS: That's how that happened. I didn't know that.

McNAMARA: . . . absolutely--a hell of a big soybean, you must know about it, a tremendous producer of soybeans. So therefore the U.S. producers were then having this tremendous competition, and soybean prices were weak. And so the soybean producers in the U.S. said, "By God, we're not going to allow McNamara to produce, to expand the production of palm oil which even in this tiny little part will compete with soybeans and put pressure on." And therefore the U.S. came in and said, "You cannot go forward with the palm oil project of Papua New Guinea."

Now, I don't know whether you've ever been to Papua New Guinea, but I'll tell you, at that time, twenty years ago, a major part of Papua New Guinea was in the Stone Age. I'm not exaggerating! You see, it was an unbelievable--and the only damn thing you could do was--they had a, I don't know, a gold mine or something or other, and there was this palm oil. And I said, "To hell with you. I'm going to go ahead with the palm oil," which I did, but oh, boy!

And, you know, they said, "Well, we can't get it through Congress. The whole IDA appropriation will be held up" or whatever the hell it is.

So I said, "Well, okay, we won't have IDA. We'll go ahead with the Papua New Guinea project." And we did.

Now, in Chile it was not as bad as that. Things . . .

LEWIS: This pressure was coming to you from Treasury?

McNAMARA: Well, I don't know. In the case of the palm oil it came from Treasury. In the case of Chile, I don't really remember very much about it.

From my point of view there wasn't any problem because--in the sense that nobody in their right mind would make a loan to Chile under [*Salvador I.*] Allende. You know, he just screwed it up, and I didn't need any instruction from the U.S. government or attempt from the U.S. government to stop me from loaning to Chile. It was no, it was--if you look back you will see that the rate of price inflation, the rate of trade deficit, the rate of current account deficit, it just shot up, and you knew the whole damn economy was being destroyed. So that was the reason why. It happened that we were not lending at the same time that the U.S. was putting pressure on the Bank not to lend, but there was not a causal connection between the two.

So I went down to Chile and . . .

Well, let me digress a moment to tell you that my son was at Stanford during all this, and there was a famous Stanford professor—you would--I forget the name, you would know his name. His was the only case of a tenured professor in a first-class university in the history of our republic whose his tenure was broken, and this professor was the most popular professor of English--and my son was in his English class. And at the end of the freshman year the professor said, "Craig, I've going to give you and five or ten others a special seminar in the sophomore year in Marxism,

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Karl Marx.” And so Craig said--I said, "Okay, the deal is you take it, and I'll buy every book of Marx, but the deal is you've got to read every one of the god-damn things." But anyway after the sophomore year--this is during Vietnam--the--oh! The least of the charges brought against this guy when they finally—it took Dick [*Richard W.*] Lyman seven years, and I really think it broke Lyman to break that tenure. The Nobel Prize winners are on both sides of this. The least of the charges was that he led an attack on the office of the dean of the School of Engineering and burned it.

Now, my son was part of all this, so at the end of the sophomore year my son says to me, "Dad," he said, "Allende needs help."

I knew just about what was coming. I said, "You're absolutely right. He sure as hell does." I said, "Why are you mentioning it?"

He said, "Well, I'm going to go down and help him."

I said, "What are you going to do? You're going to leave Stanford?"

“Yeah.”

I said, “Do you speak Spanish?” I knew he didn't.

He said, "No, I don't speak Spanish."

“Well,” I said, "Let me tell you something.”

“Well,” he said, “I can learn.”

I said, “Let me tell you something. The last thing Allende needs is some god-damn Yankee going down there and eating his food and can't speak his language. To hell with it.”

So my son went down there and he spent—I'll tell you exactly when it would have been. It would have been about 1971, because he spent two years there. Allende was killed in August of '73 or September of '73 because we were meeting in Nairobi at the time and I remember hearing about it. And my son had come home a month earlier to see his mother and me, and if he hadn't, he would have been killed himself [*inaudible*].

But, in any event, I went down to--you will remember the year, I think. It was the meeting of the—it was the year of the UNCTAD meeting in Chile, '72 maybe?

LEWIS: Probably would have been. It was '68 in Delhi, and they met every four years, I think, so '72 would have been . . .

McNAMARA: Yeah. So I went down there then. We weren't lending, and Allende asked to see me. And I went in to see him by myself, and he had two people with him. He had--again, my memory may be a little wrong--but he had the minister of finance, who was a communist.

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WEBB: [*Pedro*] Vuskovic?

McNAMARA: Well, I don't remember the name, but it was the minister of finance, who was a communist. Then he had another guy who was what I call a Naxalite, you know it was about the same time we were having those problems in Bengal with Naxalites, and this guy, the other guy, was to the left of the communists, and he really was an Naxalite. Those Naxalites were just awful. They were just—they were anarchists.

LEWIS: In a sense of the word, that's right.

McNAMARA: That's right. Well, this guy, the third man--there was Allende, the minister of finance, the communist, and this third man--and the third man was the problem because Allende said, "You're not lending to us, and the reason you're not lending is the U.S. put pressure."

I said, "Mr. President, you're just all wrong. You're screwing up this country. There's no basis for our lending." "

Well," he said, "we're going to change." He said, "We're going to lay a solid foundation, and you still won't lend to us."

I said, "That's not right. We will."

"Well," he said, "you don't have anything in the pipeline, so even if you make a decision to you won't be able to."

I said, "I tell you what I'll do. I'll go back, and we will make a loan to you." I said--no, "You prepare the projects, and we'll be all prepared."

He said, "We don't have any funds for that."

So I said, "Okay, I'll go back to the Bank. I'll put through a loan to you to permit you to use convertible currency to prepare the projects for further loans from the World Bank. The further loans will be contingent upon your reforming your economy."

He said, "Okay." And that's what we were in the process of doing, and it would have been--because I didn't get it done before he died--but we were in the process of doing it. But that's why we didn't loan to Chile.

And the same thing's true of Vietnam. You know, loan to Vietnam and the letter you were talking about, in that case it was this kind of situation in the--whatever committee it was--I think, I'm not absolutely positive, John, but I think I wrote a letter to the Treasury or the letter was passed to a committee.

KAPUR: Clarence Long.

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McNAMARA: Pardon me?

LEWIS: Clarence Long, he says.

McNAMARA: Okay. And what committee? Appropriations, probably.

LEWIS: Clarence was Appropriations, yes, with Otto Passman.

McNAMARA: Yes, and the committee said they weren't—Treasury said, "The committee says they will not"—I don't know whether it was a capital increase or IDA or whatever it was; we needed money out of them—"they will not put through the appropriations bill because you're going to lend to Vietnam, and we don't want you to lend to Vietnam." So I wrote them a letter saying, "I'm not going to lend to Vietnam." But again, it wasn't the cause of it. Who in their right mind would lend to Vietnam in 19-whatever-73? It was absolute chaos economically.

KAPUR: This was '79.

McNAMARA: Pardon me?

KAPUR: This was '79.

McNAMARA: All right, '79, whenever it was. It was absolute chaos. Yeah, in '73 we were still at war with them.

LEWIS: That's right.

McNAMARA: But in '79 it was just chaos; you couldn't justify a loan there. So I wrote the letter, and then it was said that I wrote the letter under pressure and under orders from the U.S., which just wasn't true.

But, you know, it was just a constant series of those things because the U.S.--and you must have known this, John, from observing it--the U.S. treated the Bank as though it were a U.S. institution. And when I came to the Bank it had the reputation of being a U.S. institution, and I just didn't accept that.

And Nixon wanted to get rid of me. *Newsweek* used to have a page called the "Periscope," and it was a page of Washington gossip. And in there on two or three occasions there were statements that the White House wanted to get rid of McNamara, and on one occasion it said they wanted to put their Secretary of Commerce in—I can't remember the name; think he's dead today--who was their Republican bagman. I can't think of his name. Anyhow, they wanted to appoint him in my place. So finally I had had enough of this, these things, so I wrote a letter to Nixon and said, "Dear Mr. President: The U.S. President does not appoint the President of the World Bank, but I read that you want to replace me, and I want you to know that the moment I lose your confidence, I leave. Sincerely." And I gave it to a person that I knew would get it to Nixon. And Nixon got it, and I got a note back very quickly that said, "Dear Bob: I don't know where you--

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you've been totally misinformed," you know, all this stuff. But this has been going on for all this--that's just part of being, that's part of the job.

LEWIS: Yeah, yeah. Right.

McNAMARA: And it's a fun job. I wrote Lew [*Lewis T.*] Preston the other day and said that I still thought it was the best job in the world and I hope he would agree.

LEWIS: You had some, I think you told us last time, some pressure, for instance from the Germans. I'm thinking about senior appointments.

McNAMARA: I told you and I'll mention again, and again if you use this in the book, I don't want the name of the minister or the country involved, but the name of the minister was Schiller. And as you know the U.S. had up until I don't when--this would have been about 1970, '71, something like that--borrowed primarily in U.S. dollars, and it seemed to me we should begin to borrow in other currencies. That was one of the reasons I was in Japan. I thought while [*Takeo*] Fukuda was either finance minister or prime minister we'd shift from lending to Japan to borrowing from Japan, but in this particular--earlier than that we wanted to begin to borrow substantially in the German market, and we were beginning to do so.

So Schiller, the finance minister of Germany, came into my office one day in the World Bank. It was before I moved to the, to Pierre-Paul Schweitzer's office, so I don't know what year it was, but it was before Schweitzer left, in any event, and I was in the old office, Gene [*Eugene R.*] Black's office. And I'll never forget: Schiller came in and said, "Bob, you don't have any German vice-presidents."

I said, "That's right. We don't. I wish we did. "

He said, "Well, I've got one for you."

I said, "Who is it?" Well, he gave me "Mr. X," and I knew the guy, and he was a third-ranking bureaucrat. He was no damn good, so I said to Schiller, "Well, now, there are two problems. Number one, as I said, I wish we had a German vice-president. Certainly I want to move in that direction. But, number two, I don't have an opening. There are no vacancies, and I'm not going to create a vice-presidency, a job I don't need, just to appoint a German. Number three, if I did have an opening, I wouldn't appoint Mr. X. He's no damn good."

And Schiller says, "Well, until you appoint X to vice president you cannot enter the German market."

And I said--and I sound vulgar today, but I'm not as vulgar as I sound--I said, "You son of a bitch. You get out of this office." And I threw him out, and as long as he was finance minister, which didn't last too long, we couldn't borrow in the German market. He got involved with a red-headed gal, and he got thrown out of the finance ministry, or at least he left the finance ministry.

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LEWIS: That reminds us--Paul Volcker told us that when he was Undersecretary for Monetary Affairs--it must have been in the Nixon Administration--that he refused to let the Bank borrow in New York in order to--was it to send a message to the . .

KAPUR: Germans.

LEWIS: . . to the Germans, who had been concerned about too permissive a [two interviewers talking at once]

KAPUR: [*inaudible*] 2 million dollars [*inaudible*]

LEWIS: [*inaudible*] Do you remember anything about that?

McNAMARA: I do remember something like that, John, but my memory is so . . .

LEWIS: Well, I think that Rotberg is, probably remembers it. Maybe we'll talk to him about it. Okay. All right.

McNAMARA: But those kinds of things came up all the time. Many of them, you know, you just let roll off.

LEWIS: Sure, sure.

McNAMARA: We were always getting beaten over the head about our airplane policy, first class.

LEWIS: First class, yeah.

McNAMARA: Yeah, and I put in a policy different from the Fund's in which we had tiered travel. I've forgotten, but to Europe it was economy--before business class, I remember, economy--and first other places, and the staff was up in arms about it, and still we were getting beaten over the head.

And one Tate Danigan [*ph.*]--Inouye was chairman of the Senate finance committee, subcommittee of the finance committee--was just raising unshirted hell. They weren't going to pass the IDA bill because . . .

LEWIS: Who was this?

McNAMARA: The guy from Honolulu. Danigan. Inouye's . . .

So I went up to see him. The Treasury was very concerned, and I said, "Damn it, we're tougher than the Fund. Everybody in the Fund travels first class, including secretaries, female secretaries. We have this tiered system."

"Well," he said, "you always—you authorize all first-class travel to Africa or whatever."

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I said, "By the way, Danny, how do you go to Honolulu?"

"Well," he said, "Bob, I have to work when I get there."

I said, "What the hell do you think our people do when they get to Africa?" I said, "How do you go to Honolulu?"

"Well," he said, "I go first class."

I said, "Okay. Shut up!"

On another occasion--but Marg and I, for the thirteen years I was there I would say at least 80% of the time we traveled coach because I was trying to set this rule. So on one occasion we were going to go to Japan, and the Executive Director, the Japanese, came in a day or two before we were to leave and he was very upset. He said, "I see you're traveling economy to Japan." He said, "You can't do that."

I said, "Why not?"

He said, "The finance minister is coming to meet you at the airport, and he'll go to the first class stairs, and you won't be there, and he'll be very embarrassed."

I said, "To hell with him. He can come to the economy class entry. We're going economy class."

On another occasion—and you'll be amused at this--the Swedes had a project in Ethiopia, and everybody thinks the Swedish aid is very efficient. Well, I can tell you sometimes it isn't. This was out in the boondocks at an agricultural project, and Marg and I were in Ethiopia, and I wanted to see it. So we get a plane and go up in the boondocks. And the Swedes had built a brick bungalow that was really the only place you could get anything to eat. It was a miserable part of Ethiopia, and so the manager of the project, Swedish project, lived in the bungalow, and he was, turned out to be a very radical Marxist Ethiopian. So he invited Marg and me to dinner. So we go there to dinner--and I'm not exaggerating now—there was, the dining table was there in effect and there was a sofa here and there was the wall. And he sat me down or his wife sat me down, and I was looking at the wall and there was a full-length, life-size photo, poster of Che Guevara, so I knew what had happened. And you know, I was so god damn mad I could have thrown a brick at her.

And after dinner I said, "And where did you go to school?"

"Cambridge University." She was a British lady. "Cambridge University."

"And what did you study?"

"Literature."

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"And what did you do afterwards?"

"Editor."

"Who did you edit?"

"T.S. Eliot."

"Oh," I said--now these are the only four lines of T.S. Eliot I knew, but my wife had pointed them out--and I said, "I am so fond of his poetry." I said, "By the way, the lines that intrigue me most are those that--let's see, how do they go?--'We shall not cease from exploring, and at the end of our exploration we will return to where we started and know the place for the first time.'"

"Oh," she said, "he didn't write that."

I said, "I'm sure he did. It's from the *Fourth Quartet*." I said, "You must have his books here."

"Oh, yes." So we go up to the library, I pick out the *Fourth Quartet*, and there it is.

Well, the point of this story is a year later Marg and I are going to Nairobi. And at that point the best way to go, you go TWA to Rome, Rome to Athens, Athens to Nairobi, and on the Athens to Nairobi leg--we're sitting back in coach—and the hostess comes back, the stewardess comes back and gives me a note and says, "There's a gentleman up in first class who sent this back to you."

I open the note, and it's this guy, the Ethiopian Marxist, is up in first class, and he said, "I'd be grateful if you'd join me here and we can chat."

So I wrote on it, "If you want to talk to me, you can come back here."

And he didn't come back. He didn't come back! Oh, there are small games that one plays!

LEWIS: I think we should . . .

McNAMARA: But it's a wonderful institution, and the people are fantastic. And I think they've gotten a bad deal the last several years, really a bad deal. And today there's a lot of criticism.

LEWIS: You mean within the institution?

McNAMARA: Well, there's a lot of criticism outside of people inside, of bureaucratic intrigue, overstaffed, overpaid. It just isn't true.

LEWIS: We had a meeting with Conable just a couple of days ago for the first time. He's been picking up some of your . . .

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McNAMARA: He's a very decent human being. He's got a wonderful wife, and she's very interested, also.

LEWIS: And we hear she's had a big impact there, too, in the social sector kinds of things.

McNAMARA: Yeah, that's right.

LEWIS: Will Preston be good?

McNAMARA: Well, I think he's the best commercial banker in the country, but he's never had anything to do with development. He's 64; 64 seems a little young to me at the present time, but still, still to take on--that is a really tough administrative job. And I think he'll do it well, but it's going to take him a little while to get . . .

LEWIS: It's going to be another one-term president, isn't it?

McNAMARA: Sure.

LEWIS: That's not the way to build . . .

McNAMARA: No, no, I don't think so either. I don't think so either, John. It takes two years to find your way around.

LEWIS: Well, if we may, we'll be at you even again at some point. We're going to be separating, but the latter part of the summer whenever you're . . .

McNAMARA: Sure, sure. Be delighted. As you can see, I love to talk about this!

LEWIS: We love to hear you!

McNAMARA: Well, it was just the greatest experience of my life, I'll tell you that.

[End Tape 1, Side B]

[End Session 3]

Session 4
October 3, 1991
Washington, D. C.

McNAMARA: . . . and then a major speech on population in [*University of*] Notre Dame in the early '70s, and then a major one at MIT [*Massachusetts Institute of Technology*] in the mid-'70s, and then in 1984 another one. Now, I didn't realize, frankly--and this shows my lack of understanding of economic thought—I didn't realize that a body of what I would call revisionist Malthusian thought developed among Nobel Prize-class economists in the—when?--late '70s, '80s . . .

LEWIS: Yeah, probably.

McNAMARA: . . . and it is epitomized in part by the National Academy of Sciences report that came out in 1986 on population. And it is exemplified today by Larry [*Lawrence H.*] Summers, who I consider a Nobel Prize-class economist at the Bank, who is, well, after talking to him, he finally said, "Well, you've brought me to the point of agnosticism." Initially he basically opposed.

So in this statement² what I am doing is examining population trends, that's something about what may happen in the future, and then saying in relation to what may happen in the future, are there reasons to accelerate attention to the subject and seek to reduce fertility rates at a faster level, faster rate than appears in prospect? To consider that, the answer to that, I examine three factors: sustainability of development, relationship of population to economic growth and alleviation of poverty, relationship of current and prospective population growth rates to the role and the status of women and children. And based on that I draw the conclusion that to continue on the path that the world is presently on—or the developing countries are presently on—which, in the latest revision of the Bank stabilization, population stabilization levels, will show not the median U.N. projection of stabilizing at 10.2 billion but stabilizing at 12.5 billion. And the U.N. projection now in process will show an increase not as high as 12.5 but I think it's 11.6. And Nafis Sadik has said there is a prospect, a significant prospect of 14 billion.

So I say in view of my examination of sustainability, poverty, women, et cetera, the relationship of population growth to that, should we continue on this path that may lead to 14 or should we seek to accelerate fertility reductions? I conclude we should seek to accelerate fertility reduction; how much is possible and by what means? And I to some degree--I shouldn't say pulled a figure out of the air, but I approached it from the point of view of the individual countries. You can't have a global, imposition of a global target on Nigeria and their share of it; you've got to say what is in Nigeria's interest and so on and what's possible in Nigeria, Brazil, whatever. On that basis I conclude we could stabilize at 9.7 billion if we raise current levels of contraception--whatever they are, 53 percent worldwide, to whatever, 75 percent by the end of the century--in these individual countries according to this plan if we act during this decade to do it because of the momentum factor and so on, and that would cost the following amount of money.

² Robert S. McNamara, "A Global Population Policy to Advance Human Development in the 21st Century," Rafael M. Salas Memorial Lecture, United Nations, New York, 10 December 1991.

And I suggest an increment over present levels of, which are on the order of, the way they calculate it, and which I think have been open to question, on the order of 3.7 billion worldwide. It would raise that cost to something on the order of 10 or 11 billion. Today the 3.7 billion is split roughly 3 billion developing [he is apparently emphasizing his points in this section by striking a metal object, and it drowns out a lot of what he is saying] countries, 700 million developed. I would suggest the 10 or 11 billion be split, say roughly, half and half, and you do it for the following reasons which we are all familiar with.

And then I suggest at the end how the world organize to do this: individual countries do certain things; the World Bank assumes responsibility, not to finance it all but to mobilize the financing; UNFPA monitors it; ECOSOC [*UN Economic and Social Council*] examines it every year; a grant-type, [*Olof*] Palme-type commission is set up to prepare for the 1994 World Population meeting headed by, hopefully, a third-world woman; and so on.

Now, that's the net of it. And what I would like you to do is whatever you're willing to do, but most of all question my judgments and my statements of alleged fact because I don't know the damn thing essentially myself on all that stuff and it's impossible for me to go back over 20 years of thought—and particularly on this sustainability issue. My god! As I—you know, I start with the [*Gro Harlem*] Bruntland report and then I get [*Jim*] MacNeil and then I go into things. I don't know how far, much you've followed it, but it is a can of worms! And very, very important. And it's frightening to me as to what I see. And there's a hell of a difference of opinion between, in a sense, the biologists on the one hand and the economists on the other on this. And they're not talking to each other, as best I can tell.

Now, you may know of--you stop me—but I learned that Murray Gell-Mann, the Nobel laureate, and Gus [*J. Gustave*] Speth of WRI [*World Resources Institute*] and John Steinbruner of Brookings began to get concerned about this, and they organized a meeting in July of this year on sustainability at that institute down in Santa Fe—which immediately aroused my suspicion because it's a modeling institute. And my belief is sustainability is not yet at the modeling stage. I don't think we know the causal relationships to plug into a model.

LEWIS: The [*Donella H. and Dennis L.*] Meadows tried to do that long ago.

McNAMARA: And I refer to what I call a simplistic approach, and I say I don't wish to fall into that error. On the other hand, when you pursue this, my god! And so therefore, I would, you know, I'd like any line in, line out or whatever—but what I'd really like from you, John, is your questioning of my judgment or your affirmation of it and any checking of factual misstatements that occur to you as you go through it because I've used all kinds of facts. And I've got 30-odd references and so on.

But I come back a little bit to the Bank and the history because I know we were right in the late '60s and early '70s when we put pressure on ourselves and the world to examine population growth trends and the impact on human beings in the developing world. I'm absolutely certain we were right, and I'm absolutely certain we were correct in implying that it would be in the interest of human beings in the developing world to reduce the prospective fertility rates without

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regard to what the stabilization level was. I'm absolutely sure we were correct. Number two, I think it had some impact on thinking across the world. Number three, we began a program of action at the Bank, but I think it was not as effective as it could have been during the '70s. In the '80s to some degree--now I'm speaking about something I don't really have first-hand knowledge of, but I pick it up from my conversations and readings and so on--in the '80s I think to some degree revisionist thinking set in, and it wasn't thought to be terribly important, and therefore during much of the '80s the Bank didn't put great emphasis on it.

Toward the end, and particularly in the early '90s, the Bank has gone all out. And this fiscal year--I think I'm correct in saying July 1, '91, to June 30, '92; in any event, it's either this fiscal year or last--will be on the order of 370 million dollars of population financing compared to 168-odd million in the previous year, a hell of a big increment. So there is thinking going on; however, to this day I don't believe--and here, I don't want this repeated outside the room as attributable to me because I'm not, I really shouldn't say it except I think it's important, both in relation to the present and the history--to this day this is not an accepted view in the Bank, particularly by the country team economists. It is not accepted that population is a serious impediment to maximizing economic growth, alleviation of poverty and human advance, particularly for women and children. Secondly, to this day it is receiving inadequate attention in the country economic reports. To this day it is receiving inadequate attention in the lending programs.

LEWIS: Yeah, I would have thought . . .

McNAMARA: Finally, they do not yet have adequate monitoring of what countries are doing with respect to population growth rates in relation to what they should do or even what Bank projects are achieving. Now, I've given you a long statement, but it relates to history in part.

LEWIS: It's not the first time. I think you've made quite a lot of sense. I had thought that the pickup in, recently, in Bank spending was pretty attributable to Conable, that . . .

McNAMARA: I think it may have been.

LEWIS: . . . he got, that this was one of his main thrusts in the last couple of years.

McNAMARA: I think it may have been, but I don't think it's widespread.

LEWIS: I think what you say about the country economists is probably right. I have not been aware, although I don't begin to . . .

KAPUR: I was in a conversation with Larry Summers and an environmentalist, Robert Goodland, and they were talking about sort of on sustainability issues. And the question was--the environmentalists within the Bank, the World Bank--was [*inaudible*] the quality of life enjoyed by our children 20 years down the road, he was saying, as to the one we have now. This came in the context of this *WDR [World Development Report] '92* which was on environment. And the environmentalists were [*inaudible*] and said the answer was "no," even in the West let

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alone in the third world. And Larry Summers was the only one of the twelve people who believed that technology . . .

McNAMARA: Larry's argument basically is, I think, the market'll take care of it, that if an item is in short supply, the price will rise, consumption will fall, the production will increase, and it will balance out.

LEWIS: I think broadly what's wrong with these revisionists is that they've sort of lost track that the--this is a finite space.

McNAMARA: I use that term.

LEWIS: Yeah, and it's--we're getting pretty damn crowded

McNAMARA: And we can come—and the interesting phenomenon which I haven't really been able to express—I just want a piece of paper--been able to express in my paper yet, and I don't know whether I'll be able to, but it's an obvious one to us all, you can go along, if this is time and this is environmental impact, you can go along, and you can have a two percent a year increase in environmental impact for a century or two, and then all of a sudden the system is plugged up, and you've got to stop and/or decline. And ozone is a perfect illustration of that. And how many others of these things? I don't think we really know. And I don't want to be an alarmist, and I don't want to be simplistic, but I am damn concerned about it, and to say that it really isn't a problem, the market will take care of it, when there is a finite space--we know it's a finite space!

KAPUR: The technical thing which the environmentalists [*inaudible*]—because it used to be the thing in the mid-'70s when you started was that people had put resource constraints which was found not to be as true, but the people are now focusing on this aspect of the constraints on sinks, which is where do you dump the waste. You know, there is just that much that the water can absorb. It's just, you know—and the market can do nothing about sink constraints because that's . . .

McNAMARA: Now, what Larry would also say, the second point he would make, is "Bob, you don't seem to have any faith in technology, technological advance." And of course he's right in emphasizing that it will occur. He's wrong in saying I don't have any faith in it. I put in an equation--and I know you have your questions; five minutes more and I'm off this--but I say equations, not to upset people, equations illuminate fundamental truths such as Einstein's E equals MC squared. Environmental damage equals population, the product of population times consumption per capita times environmental damage per unit of consumption.

Now, start putting some figures in there. In the first place, environmental damage to what? That's something the sustainability's got to begin with. Not everything is nonrenewable; some things are renewable. So the only things you want to worry about is the environmental damage to nonrenewables. So you start with that. But population today, 5.4; take Sadik's 14; that's 2.6 times. So P is 2.6. Consumption per capita? Hell, it's been rising at 3 percent per year across the globe for 50 years or so; make it 2 percent. In a century, that's an eight-fold increase, so 2.6 times 8 equals sort of 20. Now, can environmental damage per unit of consumption drop in a sense 95

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percent from whatever this is? Well, I think it can sure come down a hell of a lot, but I doubt that it can drop 95 percent. So it's--and you say, "Well, we've got to change lifestyles, so you don't have to have a 2 percent. Or, if it does, it doesn't have to have the same consumption of ozone or whatever." I agree on that, too. But, boy, this is frightening when you . . .

And then somebody says, and there's an argument in one of these documents--a man named [Allen C.] Kelley has written a revisionist Malthusian analysis, a very thoughtful anti-McNamara device. As a matter of fact, it starts out quoting me, says "an extreme view of the problem taken by McNamara." But it says in effect that, well, if McNamara wants to take 14 down to 9.7--which is what I do; he doesn't know I'm thinking about that--he would say, "Well, that's only a reduction of whatever that percentage is, say a third, 33 percent, and that's not too much and if you only have to--instead of working on that, why don't we work on a third of this or something."

But just look at the figures here. It's a difference of 4.3 billion people, and it's multiplied by a consumption factor that's 8 times today's consumption. So multiply that and you get a—I know, something's wrong with my—you get an 11-fold increase in today's production for the people that I take out because they're at a higher level of consumption. And I don't think this--I've never seen this referred to in thinking about sustainability in relation to population.

Anyhow, I'll stop. It's a fascinating subject.

WEBB: Could I give you my--how I, my idea of how I see the things.

McNAMARA: Yeah.

WEBB: I get quite indignant, too, when I hear this, arguments, almost like--the thing is, the way I would begin thinking about population policy is thinking of the individual woman, sitting in her shack on a mountain. Most of these women--and Peru has done surveys--don't want more children.

McNAMARA: I've got that in the paper; absolutely.

WEBB: They don't have the information at hand to do something about it.

McNAMARA: So, Larry Summers, let's stop arguing about the rest of the people. Let's take care of those women, the ones who don't want.

WEBB: Give them the information that the system has . . .

McNAMARA: I think I'm correct--I've forgotten the figure--600,000 families today don't want any more and are not using contraception today.

WEBB: Six hundred thousand?

McNAMARA: I mean 600 million, sorry.

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No, you're absolutely right on it. And the women, by the way, are paying a hell of a price in terms of abortions and ill health and all kinds of things.

WEBB: And the other thing that I think is proof of is: if you can give a whole generation of LDC [*less developed country*] peasants and very poor people two children instead of five, it would generate so much sort of room for maneuvers, savings [*inaudible*] the past week, upgrade the quality you have and so forth and so on. It would be like a boost at a crucial moment. It's not just the sort of the aggregate solution examinations. It just sort of a kick you give. If families acquire the information, then they give themselves that, particularly when it comes to urban areas. I don't think people are thinking about it in the right way.

McNAMARA: Well, it's going to be a major subject of contention, controversy, in the next several years as the sustainability issue draws more and more attention.

Okay, enough of that. Your subject.

LEWIS: Well, in a way this leads into our subjects. We thought we'd like to talk to you some about your perceptions of research and economic thought in the Bank during your, particularly in the first part of your tenure, and some of the personalities involved. You told us about how you had connected with Hollis when he was up at Harvard. We're interested in how Hollis built his shop and to what extent you led that, or were you--kind of went along with it, the kind of recruitment he did, how he related to mercurial figures like Mahbub and Monte Yudelman. Did they—were they in this—they are people who seemed to contribute to your equity-oriented thrust at the Bank.

McNAMARA: Intellectual orientation? Yeah, absolutely. Absolutely.

LEWIS: The question would be: who did the population thinking at that time? Was there--or did you do that yourself back then?

McNAMARA: Well, initially I did a lot of it myself, but I called on whoever was there. It was before Hollis came, because my first statement on population was—it's not in one of those; it's--no, it's not there; it's in an earlier one; that begins with Notre Dame. But it was in September 1968, and at that time Hollis wasn't there. There was damn near nobody there that I was able to work with. I'll tell you exactly when it was and what it said because I've [*inaudible*]

In September 1968 in my first speech as president of the World Bank, speaking to the finance ministers of the world at the annual meeting of the Bank and Monetary Fund, I stated, quote, "Rapid growth of population is one of the greatest barriers to economic growth and social well-being of the people of our member states." So that was September '68. And that was my own thought but I wouldn't have said it unless I had checked it with people there, and that was Friedman at the time, Irving Friedman and his people. And I've forgotten all the details, but that's how it began.

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Then for a variety of reasons we had all the problems. Friedman and Drag [Dragoslav] Avramovic couldn't get on together, and there was a hell of a lot of tension, so Irving left and I brought Hollis in. And I don't remember when that was, but I would say 1970 roughly.

And the first major subject we addressed--and I had a thesis and I wanted him to, from a theoretical point of view, support or reject it. My thesis was that in the developing countries poor people were poor much more because they had low productivity, and therefore I concluded that if we could increase their productivity by bringing, by associating them with some capital and some technological advance brought about through extension services or whatever, that we could significantly increase their productivity and do so without penalizing, in a sense, the rate of return on investment in the society and hence without penalizing societal growth.

So I thought that--well, let me go back one second to say I had concluded before developing this theory there was no way one could address poverty in the developing world by redistribution. That was impossible. One had to increase output in the society, and the question therefore was could I increase total societal output as rapidly by focusing some investment on the poor as by seeking to maximize GNP growth, which was at that point, in a sense, I thought, the conventional wisdom that a rising tide raises all ships. You maximize growth by putting investment where you get the highest rate of return. That's not in focusing on the poor, and what you get is a trickle-down theory. And what I was saying is, my experience is that a rising tide doesn't raise all ships, at least not in the short run. We've got some ships that are lying on the bottom--the poor; they're not being advantaged. I want to try to raise their productivity by focusing investment, technical assistance on them, and I believe I can do it without penalizing the growth rate in the society. And I said, "Hollis," in a sense, "you take this on and see whether you can develop a theoretical foundation for it," which he did.

LEWIS: This is the *Redistribution with Growth* book, you mean?

McNAMARA: No, I don't think that's the name of it, but . . .

LEWIS: Well, that's the way it came out jointly with [*University of*] Sussex, 1974, I think.

McNAMARA: Yeah, something like that. Anyhow, that was the first and from my point of view the most fundamental economic research that was done in the Bank while I was there because it completely shifted our pattern of both lending and technical assistance. And the poverty-oriented program would not have been possible--at least not to the degree we carried it out--if we'd had to say, "Well, we're sensitive. We have soft hearts, and we're sensitive to the human problems, and we're going to accept a penalty in growth of one percent or two percent in GNP per year in order to take care of the poor." We'd have had a hell of a time on that.

LEWIS: So you sort of--this was a eat your cake and have it too?

McNAMARA: Absolutely.

LEWIS: And you still believe--I remember talking about this at ODC [*Overseas Development Council*] with you one time not so long ago that--you still really believe that, don't you?

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McNAMARA: Absolutely, absolutely.

LEWIS: Any penalty that you pay for going this . . .

McNAMARA: No. I want to stress, John, that I think it's difficult because you have to learn how to associate the poor with capital and technical assistance, what institutional forms are required, extension services or whatever, so that you don't waste. But if you use existing knowledge about institutions and processes in technology, I am certain it can be done. You've just got to get organized right.

WEBB: Did the research people help you with that second stage?

McNAMARA: Not really, no. That had to be--the operations people had to do that.

WEBB: Such projects—Jaycox? Yudelman?

McNAMARA: Well, Monte Yudelman and Leif Christoffersen--I put Leif in charge of rural development, as I remember, and Leif did it.

And we had some failures. On balance, I think the poverty oriented projects and the rural development projects had a quite acceptable record through the operation, evaluation, research process. However, those that we did in Africa in the rural areas, large-scale, massive projects oriented toward the rural poor, had a less favorable record than the average of the Bank and the average of poverty projects and a significantly less favorable. I think on balance I'm still glad we did them, but what it proved was--to me--not that the approach was wrong; what it proved was that the institutional fabric in Africa was so much weaker than, say, in Latin America or India that we could not achieve as much by poverty-oriented projects without greater strengthening of the institutional fabric than we undertook. And that was a serious error, I think, on our part. And by god, it exists today.

LEWIS: Now, where did that push in Africa come from? You or the . . .

McNAMARA: Me. I pushed Africa.

LEWIS: And you--did you push this, the so-called area, multi-faceted . . .

McNAMARA: Absolutely. Well, I didn't like the multi-faceted stuff because I wanted to focus on a narrow thing. I thought—I knew then what I'm telling you now, that in theory I was right but in practice I'd prove wrong unless I had an institutional foundation, structure strong enough to take this additional capital, associate it with technical assistance, and provide it to some ignorant people who had the right motivation, in a sense, if they were approached properly. But when you had--you didn't have a banking structure, and you didn't have marketing and you didn't have extension services, to pour in dollars to a bunch of poor damn people in Nigeria could lead to waste.

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But the answer is I pushed--for example, Roger Chaufourier and I went out on several occasions in Nigeria to visit these huge projects, so--and there was no question that it was pushing the poverty and it was pushing Africa. But what I didn't realize, and what I think I failed to provide as much for then as I would today—although they're not doing it today, in my opinion, in an adequate degree—the need to strengthen the human and the institution, the human and institutional infrastructure. It is today--I think Africa is a disaster today. You know, the rate of GNP growth in Sub-Saharan Africa for 500 million people has been negative for a decade. Food production output per capita has been negative for decades. Why? Not because capital hasn't been made available, and certainly not because external capital hasn't been made available. The savings rate is very low. But external capital? My god! It's been a disaster. But it's being poured into a society with an extraordinarily weak human . . .

[End Tape 1, Side A]

[Begin Tape 1, Side B]

LEWIS: . . . and U.S. bilateral . . .

McNAMARA: And the U.S. bilateral, you're absolutely right.

LEWIS: . . . and so the Bank kind of piggybacked, in a sense.

McNAMARA: You're right; you're absolutely right.

LEWIS: And Asia--Africa was sort of all by itself.

McNAMARA: Yeah, yeah. Now, I don't want to go too far on that, but anyhow that's--you're right. At least, to start with, you're right, that the human and institutional infrastructure in Asia, particularly in India, was a hell of a lot better than in Africa, was then and is today. You know, there isn't any Manmohan Singh in Africa. The closest to it is *[Bernard T.G.]* Chidzero. And Chidzero--Chidzero is by far the ablest finance minister in Sub-Saharan Africa. Why? Because he was kicked out of Africa. And while he was kicked out in exile, he went to graduate school on a Ford Foundation fellowship, and he came back much better equipped to deal with this kind of a problem.

LEWIS: And he worked at the U.N. for some time.

McNAMARA: Exactly, exactly. In other words, he was educated.

KAPUR: So who really pushed the area concept in the Bank?

McNAMARA: Oh, I did and Monte Yudelman did and Leif Christoffersen did. Those three--and Warren Baum, I would say.

And we had a hell of a lot of them. If you look--I haven't looked at the record, but if you look at, say, from, I'd say, from 1970 to 1980, my god we--I don't know how many, but a lot of area development projects.

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KAPUR: It's not really a change in the '80s?

McNAMARA: You mean, they continued? Well, I think they're highly justified, but you've got to be sure the human and institutional infrastructures are paid attention to, and I believe they should be simplified as much as possible. I think whatever you call the broad project, I think, John, is a mistake because it goes beyond the capacity of the human and institutional infrastructure to deal with effectively.

KAPUR: How did you see the role of the EDI [*Economic Development Institute*] in the Bank at that time in this aspect of human . . .

McNAMARA: I think it can play a large role and probably it ought to be on the--in the areas. And we began some of that. We have, we had EDI programs on site in Africa, and I suspect it could do far more than I tried to do with it.

KAPUR: Did your relative focus on research [*inaudible*] EDI?

McNAMARA: Well, I worked with EDI, but I didn't push it as much as I think probably I should have.

LEWIS: You say that the country desks, country economists haven't pushed population the way you think they should. In the case of the anti-poverty work, was there a tension between operations?

McNAMARA: I didn't sense any. Maybe I'm—well, let me rephrase that. I don't recall today that I sensed any then. I don't know. Maybe my memos or behavior was different, John, but I don't recall any.

LEWIS: People on board?

WEBB: Do you think that the incentives might not help get this moving because they weren't very large volume loans, a lot of institutional work . . .

McNAMARA: No, I think—I think they were large volume. If you look at . . .

WEBB: Population?

McNAMARA: Oh, no, I'm talking about area.

LEWIS: Yeah, yeah, yeah, I used that just as an . . .

McNAMARA: On the area, those were large-volume loans.

LEWIS: Yeah, yeah, yeah.

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WEBB: I thought you . . .

McNAMARA: Population, I don't know whether that was right or not. I had a hell of a battle on population in all kinds of ways. For example, and I've always believed--one of the reasons I was late was I was at a meeting dealing with housing in this country. And it--I'm just not interested in housing in this country unless it's replicable, I mean low-cost housing. And they're dealing with small projects, so I keep saying, "Is it replicable? How much do we need across the country and how much is it going to cost?"

In the population, in the Bank, god damn it, there was so much opposition to doing this, number one. Number two, so much question of whether we could do it effectively, that, number three—oh, and there was so much opposition in the field from the governments, India, whatever, to doing it that we picked tiny countries, Trinidad. You go back and look at the early population, it was Trinidad, Jamaica. I had a hell of an argument about what countries. I said, "Let's get out of Trinidad, or let's go beyond Trinidad and Jamaica. Let's get Nigeria or India or whatever." And in that sense you're right. The loans were small, and it took a tremendous amount of time to fashion the projects. So it was a burden rather than a plus to the area people.

LEWIS: Speaking of operations, I--some, back in '84-'85 I did a report for OED. I headed a group that looked at the history of the Bank in Pakistan over 25 years, and we had a chance then to look at the CPPs [*country program papers*], I think you called them, or the final . . .

McNAMARA: Country program.

LEWIS: . . . and I was struck through the years about '73, 4, I should think, maybe '75, you I thought, for very good reasons, were down on [*Zulfikar Ali*] Bhutto.

McNAMARA: I sure was, despite the fact that he graduated from Berkeley.

LEWIS: And you know he had this--he had sort of a populist government. He was pushing these social sector things that you seemed to be in league with, but boy you came down--you could see all this stuff coming up from the region and the country desk, and you sat with Burke Knapp--I don't know who else--and just lowered the boom on these things.

McNAMARA: That's right.

LEWIS: Was that an exceptional case, or . . .

McNAMARA: No, I think it was--but it was typical him. I felt that same about Bongo in Gabon or about Mobutu [*Sese Seko*], just to name two others. No, no, it wasn't exceptional. I didn't believe in pouring money into the countries that were either diverting it--not in the sense of corruption because I—frankly, I wasn't aware of how much Mobutu was stashing away for himself, but I knew he wasn't utilizing it in the interest of his people and therefore to hell with it. We wouldn't do it. That kind of attitude. No, I didn't have any hesitancy in judging our lending program in those terms and insisting that after we'd talked it all out they accept my decision.

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There was a--the reverse of that was in Indonesia where I poured in a hell of a lot of money. And it's illustrative, I think, of the approach we were trying to carry out and the success of that. Now, there were also some failures; don't misunderstand me. But in Indonesia--I went out there in, I think it was the summer of '68, met with--or fall of '68--met with Suharto. The reason is--now, this sounds very naive, but it's exactly what happened--the reason I went to Indonesia was—and it shows you also how little I knew about development; people say Preston doesn't know very much, but god damn it I knew less than he did--because I went in to the office one Saturday morning. I got out the atlas. I still have it over there. It was given to me *[inaudible]* It was given to me by Cy Vance and my associates at the Defense Department. I turned it open to the page that has all the countries in the world listed with their populations. And I went down this list, and I had in front of me the amount of money the World Bank had loaned to all the countries it had loaned to, cumulative. And I wrote down for the larger population countries in the world the amount of Bank lending. I got down to Egypt and Indonesia, and there was none.

And so I--that was Saturday, so on Monday I asked why. Well, in Egypt it was, of course, the Aswan Dam and the Soviets, and *[Eugene R.] Black* caved in to the pressure from *[John Foster] Dulles* and withdrew the planned loan for the Aswan. In Indonesia—and so I went out to Cairo and we set up the relations with *[Gamal Abdul] Nasser* in Egypt following that. I guess that was in July, and then it was later--July '68--later I went to Indonesia.

In Indonesia the reason was--which I didn't realize—they had had under--Sukarno ended his regime in '67 or something like that, roughly, about that time--they had had a 600,000 percent inflation over a ten-year period. 600,000 percent! That'd been driven *[inaudible]* experiment. So quite properly the World Bank didn't loan them anything.

Well, that's past. Sukarno's gone; Suharto's in there now, '68, late '68. So I went out there. They didn't know what to do with me. You won't believe it. They gave a luncheon for me one day around a table like this. I think it was September '68. I had only been out of Defense a short time. They didn't know what in the hell to do with an ex-defense minister, so they sat me here, and right on my right was the Chief of Naval Operations with all the braid. So during the luncheon--I kept trying to find something to talk to him about--I said, "Sir, would you mind if I asked you a personal question?"

He said, "No, of course not. What is it?"

I said, "Well, would you mind telling me what your compensation is?"

"Oh, no," he said. "I'd be happy to. It's a rice ration"—he told me the kilograms per month—"for myself, my wife, and each of our children," six or something, "plus 16 dollars a month."

I can still remember I thought, "God, that's the sign of corruption. That guy can't possibly live on rice plus 16 dollars. You know what's happened!"

Anyhow, I go in to see Suharto, talk to him, and say, "We haven't loaned you anything because the society was totally mismanaged in terms of economics, but I understand you wish to change. Are you interested in the World Bank operating here?"

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"Yes."

"Would you wish us to establish an office?"

"Yes."

"Who are your key people?"

"You know who they are; they're the 'Berkeley mafia'." They were, as I remember, five ministers from Berkeley and two from counterpart in *[inaudible]* And the five from Berkeley had taken their Ph.D.s in the mid-'50s under the professor Malcolm Davisson, who I had studied under literally 20 years earlier in undergraduate school, a very good guy. And these people--whom I didn't know at all then, you know--I got to know quite well. He said, "We're going to have them run things" and so on. I met them. And out of all that I concluded here was a society that (A) needed help, (B) wanted it, (C) had some what appeared to me to be very able economists who would lead it, and (D) who appeared to have the full support of the president. So I was determined. I didn't think much of the field operation--although I knew very little about it at that point; we had at the time very low levels and so on--so I determined to set this thing up in a way that I thought it'd work. So I got the--I said, "Who is the best person in the Bank to deal with this?" Well, after talking to a lot of people I found out it was Bernie Bell. I didn't know Bernie Bell, who had, I guess, been thrown out of India or at least had a hell of a time with India.

LEWIS: Well, the Bell mission was a controversial exercise, yeah.

McNAMARA: The Bell mission. Well, in any event, I learned of that, and people said, "Oh, Jesus, you don't want to touch him! He got thrown out of India--at least, there was a controversy."

I'd talked to him and he looked awful damn good to me. So I said, "Okay, Bernie. If you want it, you got it. Number two, I'm going to hold you personally responsible for it, what we do out there, moving that place forward."

He said, "The hell I am! You know I can't do it. People back here in Washington will overrule me."

I said, "Okay, I'll give you a piece of paper right now," wrote it out myself and gave it to him, said in effect nobody in Washington can overrule Bernie Bell on any important thing without my personal knowledge. I don't agree to support everything he asks, but nobody in this building has authority to overrule him. That caused all kinds of hell, and it was absolutely fundamental to went on in Indonesia for the next 13 years.

And I think today, if you look at what happened there, everybody made mistakes. You know, Pemex—no, not Pemex; Pertamina--Pertamina scandal developed during that 13-year period. It was the only part of economic society that I'm aware of that was outside the control of, in effect, the "Berkeley mafia." It was a little empire of its own run by General *[Ibnu]* Sutowo, I think his

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name was, who was a friend of Suharto, and Suharto allowed him to separate from Widjojo [*Nitisaastro*] and so on, which I didn't know at the time--until the whole damn thing broke open in sort of '78 or something like that. But ex that, Widjojo and Bell in a sense ran that society, and I think with hindsight they did it damn well. And I think Widjojo would tell you that Bernie Bell was absolutely the foundation for these efforts.

And my only point is that some things worked well by a rather arbitrary process of management, and I admit that was arbitrary.

LEWIS: Well, that's really the message you're telling us, that you need a president who intervenes pretty strongly and radically sometimes.

McNAMARA: I think so. Now, part of the problem--well, I won't say problem--part of the approach, John, was based on my feeling, as it was at Defense, that I have a limited tenure. At Defense maybe three years; I stayed there seven. At the Bank for five years; stayed there fifteen. And if you're going to do something, you've gotta move. And it's tough to turn an organization around and move it on a path different from the one it's been on, and you pay a price for doing it.

LEWIS: Incidentally, you just reminded me—would you be in—are you--do you think it's a good idea to have the presidents for just five years because we seem to be in a pattern of that now.

McNAMARA: I think it's undesirable. Let me put it this way: do I think it's desirable to have a senior officer in the Bank, in the Bank for only five years? No. Now, if you said do I think it would be wise for Burke Knapp, who'd been there 20 years in a senior position, to be made president for five years? That's different.

LEWIS: That would be a different story.

McNAMARA: Absolutely.

WEBB: Or Ernie Stern, maybe.

McNAMARA: Or Ernie's a good example, that's right. But to bring me in from the outside, not knowing, having to get the atlas out to find out what our lending program was, or to bring Lew Preston in for five years? No. On the other hand, I must say, sitting from the outside, I think Lew has stepped up to it pretty damn well.

LEWIS: Do you?

McNAMARA: I'm just giving an unsolicited opinion. I haven't been in the Bank, certainly not in his office, since he's been there. I haven't talked to him since he's been there. I wrote him a letter; he wrote a nice reply. We've known each other, but I have no knowledge of the . . .

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LEWIS: Apparently--I was in Europe last week, and the--some Germans were telling me that they're quite exercised about--I think it's mostly knocking off the senior vice-presidencies and therefore a couple of senior Germans, but . . .

McNAMARA: I, I--well, there wasn't a senior German at the top.

LEWIS: [*Wilfried P.*] Thalwitz?

McNAMARA: Thalwitz, yeah, okay. But he's—he's, from the German point of view, he may not have carried the title of senior vice-president, but, boy, he's in charge of the world, or a major part of it. And if I were German, I wouldn't worry about that; other things to worry about, but . . .

WEBB: I don't know if this is a fair comment, question, but I have a sense that the Bank research, the thinking that went on in the Bank, was really pushing things during the '70s.

McNAMARA: Well, certainly I put a lot of weight on it. I've always tried to surround myself with the brightest, ablest people in the world. If they're brighter than I am, so much the better. And if you look at what I did at Ford and what I did at Defense, that's exactly what I did. And at Defense, to illustrate, you know at one single moment in time I had Cy Vance, Harold Brown, Paul Nitze, Charlie [*Charles J.*] Hitch (later became president of the University of Colorado), Alain Enthoven and Harry [*Henry S.*] Rowen. You know, this was a hell of a bunch. I don't think any cabinet office in the history of our country has ever had the galaxy of brains that we had. And I had a special section up there that was called, later became known as "systems analysis," which was the think tank.

In the Bank I tried to do the same thing, and that was basically Chenery, Haq, Stern, and all that bunch, and they were just extremely valuable to me. Now, I got myself into trouble—I don't think I'm telling you anything I wouldn't say to Hollis, although I'd be grateful if you wouldn't repeat it--he was the world's worst administrator. I'll just give you an illustration. Hell, one time I found I was being sued. Now, why was I being sued? Because Hollis had said to one of his people, "You know, McNamara thinks you're no damn good. You've got to get out of here." And he sued me! And Hollis didn't mean anything bad by it, you know. He's just an open person; you deal openly with people.

Another time, same thing, Mahbub was working with him, and Hollis didn't administer. Mahbub, who I just loved and was absolutely invaluable to me--ideas--he went up to Canada, I think it was Montreal, and in a public speech he proposed that all debt to the developing countries be forgiven, which included our debt. My god, there was a revolution at the Bank! You know, here we've got, whatever it was, 11 billion dollars of debt out, and Mahbub is recommending it be forgiven, and McNamara is trying to put an issue of 500 million on the market next month. Oh, Jesus! The Bank erupted! They said, "You've gotten fire him; he's a son of a bitch, he's a turntail!"

Well, you know, I brought him in; I said, "Mahbub, for god's sake, next time you want to cut the foundation out from under this Bank, please tell me ahead of time and I'll get prepared to respond!" But I didn't penalize him. He was terrific, and look what he did.

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There's—in this thing [*apparently referring to a publication*] I thought that, you know, the, whatever it was called, the human, freedom index, or whatever the hell it is in there is—you know, it's got all--I don't like indices that aggregate dissimilar things generally, but the idea is very good.

And what I particularly liked about it was when the third world universally protested it, and he said, "Absolutely not. We won't debate."

They said, "You must withdraw it and promise never to print it again."

He said he refused, and by god, Bill Draper supported him! But the point I'm coming back to is brains, innovation, imagination is absolutely invaluable, and that's my stock in trade. I've got to get those people. I can't do it myself, certainly not all of it.

That's the problem here. I wish to hell I had the Bank staff. I guarantee you I'd put out the best statement on population that's been put out to date if I had Hollis and Mahbub and a few others to sit here with me and talk about my thinking and then adjust mine to take account theirs, and then they would go out and put meat on the bones. They aren't trying to develop the skeleton and the bones and the meat together; that's more than I can do.

WEBB: What happened to that leadership in the '80s?

McNAMARA: Well, the first thing that happened was that I was determined to ensure that when I left—and Hollis--because Hollis wanted to leave when I did. He was on a--as you know, John, Harvard has a policy of loaning with preservation of tenure for two years, and he was on a two or three year, whatever it was, release, and his tenure would be withdrawn if he stayed. I persuaded him to stay, so his tenure was in effect withdrawn. But when I was getting ready to leave, he said he wanted to leave. He'd been there ten years, and obviously it was wise that they reinstated his tenure, so he went back.

But before he did I told Hollis, "Let's get the best guy in the whole world to replace you. Who is it? I don't know."

"Well," he said, "I'll draw up a list." So he talked to a lot of people, drew up a long list, and the two leading candidates at the end were an Israeli who you would know.

KAPUR: Michael Bruno.

McNAMARA: Michael Bruno, yes. Exactly. And Al [*Albert*] Fishlow. I didn't know Bruno, but I knew Fishlow to some degree because, working on poverty, I'd been interested in Brazil. And Delfim Neto was the finance minister at the time, and to begin to work on poverty--I guess back in the late '60s or early '70s when I was working on this—I'd asked our people, I said, "Well, let me see the income distribution in these various societies" so I could get some idea of the range of what percent of the people were poor and so on. It was then that I coined the term "absolute poor" to separate this particular category, barely on the margin of life, from poor people, the majority of people in many developing countries.

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So anyhow we got, tried to get these data. "There aren't any data."

I said, "What the hell do you mean there aren't any data?"

"Well, there just aren't."

And I'll bet you--this is what, '90--I'll bet you that this table is half blank today.

WEBB: Oh, yes. It is.

McNAMARA: I may have told you about it before. So anyhow, I said, "We've got to get it. Let's look at it." And so I began to put the stuff in the president's report to the Board. On every loan that went forward there was a table, and in--lots of tables--and in one of the tables was the income distribution. And when I put it out for Brazil, the difference between the top and the bottom quintile was on the order of, as I remember, 28 to 1 or something like that, and Jesus, all hell broke loose. Delfim Neto swore the data weren't any good in the area, and look at that today. It's half blank. In any event, my contention was it's--the reason it's blank, half blank is that people aren't paying any damn attention to it. If they were concerned about this, the political leaders and economists were concerned, they'd have the data. They don't have the data because they don't care. They're not paying attention to it, and therefore by definition I know those countries have a weak approach to poverty.

So Delfim Neto came up here and just gave me hell. Came up three times. The first time he gave me hell because the figures were wrong. Preparing for that meeting I checked back as to the origin of the figures; I learned that they were basically Al Fishlow's, that they were based on tapes that he obtained from the Brazilian government. So I got the Brazilian government's official *[inaudible]*.

So then he went back. The second time he came, argued, "Well, that's what you'd expect, that they were--the income distribution is skewed because at this stage in our development income is a function of education. You can't expect to educate all the people overnight, and so you have skewing."

I said, "Hell, you ought to look at Sri Lanka, whatever. That's not an answer, clearly." So then he goes back.

The third time he came in he said, "Okay," he said, "A, you're right, the income is skewed; B, it's not solely a function of education; C, I would agree, you know, it's mispricing of capital and subsidized interest and all the rest of the stuff."

But the net of all that was I acquired a tremendous admiration for Fishlow--or at least I knew who he was. So when these two names came forward, I began to look into Fishlow. And he was then at Yale, and his wife, as I recall, was at Berkeley, but anyhow he was at Yale. And so Hollis and I talked to him. And he was going to go to Berkeley, I guess. He was transferring or something or other.

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LEWIS: Going back, actually.

McNAMARA: He did later go back. I think at that time he might still have been at Yale, but in any event he agreed to come. And I said, "Now, Al, that's fine, but I don't want to have a deal until I clear this with Clausen because by the time you come I'm going to be out and Clausen's going to be in."

So I talked to Clausen, and he agreed based on my recommendation and Hollis's. So, it hadn't yet been announced, but there was a leak in the *New York Times*: "Fishlow is going to be chief economist." There was a hell of a blistering editorial in the *Wall Street Journal*. If you're interested in this, you can go back and look at it. I don't know when it would have come out, but sometime before I left June 30, 1981. And it just blasted the hell out of me and Fishlow. It said, "McNamara has filled the Bank full of socialists, and he's going to ensure that the socialists continue in power when he leaves, and he's just hired on Fishlow."

So Clausen calls and says, "Well, Bob, I think we—I think we ought to hold up." So the net of it was that Al was not hired and . . .

LEWIS: That editorial, was it--Al [Arnold C.] Harburger had something to do with that, didn't he?

McNAMARA: I don't know.

LEWIS: I think so, yeah.

McNAMARA: Who's Harburger?

LEWIS: He's the Chicago economist.

McNAMARA: Oh, I don't know. I didn't know him then. You know, the *Wall Street* editorial, editorialists or editorial editor had been after me for years; it was just [inaudible] I don't know whether this was as much Fishlow's as me or [inaudible], but in any case it killed Fishlow for the Bank.

And it was then, or after then, after I had left, that they decided on Anne Krueger. And whatever else she is, I think that she's a development economist or a great management, the combination of those two [inaudible] is that I think that [inaudible] a much, much weaker economic program at the Bank than during the '70s.

LEWIS: It--in a sense you can argue that Anne's neoclassical sort of orthodoxy was, provided a kind of theoretical underpinning for the structural adjustment program.

McNAMARA: No, no, no. Absolutely not. Hell, no. The structural adjustment program was put in before she got there.

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LEWIS: I know that, I know that, but I mean the rationale . . .

McNAMARA: Might have been. It was all reasoned and based by then. I had been through all the battles on it; that started back in around 1976, around '76, '77. I think—oh, no, I'm sorry . . .

[End Tape 1, Side B]

[Begin Tape 2, Side A]

[Quality of recording of second tape is for some reason not very good]

McNAMARA: . . . major changes in the Bank in the 13 years I was there occurred. We began working on it just very, very roughly in 1977, laying the theoretical foundation for it and developing the approach to lending for that purpose. There was immense opposition in the Board. As I recall—and I may be wrong on this—but as I recall, particularly the Germans and the U.S. were opposed. And they were opposed for two reasons: A, they said it was contrary to the Articles which required that we focus on project lending; and, B, they believed that it would be pouring money down a rat hole, as they thought some program loans had done. The program lending . . .

LEWIS: This was the U.S in the Carter administration?

McNAMARA: No, no. This was in--well, that's a good question, John. Of course it's Carter's years. I said the U.S. and the Germans. I'm almost sure the U.S. was opposed, but I can't quite reconcile that with Carter. But in any event I don't know.

But I do know there was immense opposition in the Board, and the opposition was based on these two points: number 1, it's contrary to the Articles because the Articles state that you should *[inaudible]* projects, and, two, it was thought to be pouring money down a rat hole as, in a sense, it was thought some of the program loans had done. My own view of the program lending operation at the Bank at that time was that they were very, that the program lendings were not properly structured. We didn't make a lot of them. The total program lending during the years I was there up through the beginning of structural adjustment lending never exceeded ten percent of the total lending, and of the ten percent I think a lot of them were fairly soft loans. The structural adjustment lending as a concept was brought about because of the tremendous changes that were occurring in the flow of finance and economic problems in developing countries following the oil price increase of early '74, whatever, '72.

LEWIS: But then also the second one in '79 . . .

McNAMARA: Right, but this began before the second, so it was following the first in the changes that occurred.

And I had become convinced by that time--and I remain even more strongly of the opinion today--that the greatest contribution the Bank can make to a developing country is in helping it formulate its macroeconomic policies and assisting it in implementing those policies. And that is what the objective of structural adjustment lending was.

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To jump ahead a moment, when I went to China in April of 1980 and met with Deng Xiaoping, I had Caio Koch-Weser with me. He was my assistant. And my purpose was in negotiating the reentry of the People's Republic into the Bank, which they'd begun the year before.

Accomplishing that with Deng Xiaoping, I then said to him—we'd started out; we'd agreed on reentry—"What is it you wish?" I said, "I guess there's no need to ask you, A, do you want us to help you?" He had told me he was just beginning what he called his responsibility system, he was going to begin in the agriculture sector. And I said--and he said he was thinking about extending it into the industrial sector, and he was thinking about some form of incentives in society and some form of, like market forces--not a market economy but some weird form of public [*inaudible*] taking account of market forces in allocation of resources, pricing, and so on. And I said, "Well, number two, do you want us to help you in developing macroeconomic policies?"

He said, "Yes."

"Do you want us to assist in financing the adjustment process?"

"Yes."

"Do you want us to have an office in Beijing?"

"Yes."

So based on that, I went off—it was a little bit like Indonesia. I didn't--we didn't have a Bernie Bell. Hell, we didn't know anything about China. We did have a Chinese, Taiwanese-born, Ed Lim, spoke Chinese, knew a little bit about it. We put him in charge of the Beijing office, and I set up Caio Koch-Weser because I knew him and knew what he'd do as division chief. And in a sense I said to him, I said to Caio, "That's your job; you can get the damn thing going. If you have problems, let me know."

And it worked like a charm, and the reason it did--and I think today if you went to China, you'd get the same report from the Chinese with respect to what the Bank did, at least up to Tiananmen Square, for ten, nine years as you'd get if you went to Widjojo today and asked him about Indonesia [*inaudible*] because--I go back to the point on structural adjustment lending, my belief that the greatest contribution the Bank can make to a country is not money, not even technical assistance and analysis of projects but rather macroeconomic structure advice and associated [*inaudible*]

And if I look at my Chinese illustration, there the money generally came in the form of projects, but they were very closely related to this macroeconomic package. And one of the first things we did was set up an economic team and develop an economic report. My recollection is that it came out in eight volumes. The first volume was a summary, and the prime minister insisted every cabinet minister read that summary. Now, that's the way [*inaudible*]

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And I come back to structural adjustment lending. That's in a sense what I was trying to do in whenever I started, '76 or '77. And the Board was very, very reluctant to go along that way. They weren't thinking in those terms. So I--my recollection is that I put—I may be totally wrong, but my recollection is I put together one or two structural adjustment loans which we took to the Board without in effect having the Board's previous acceptance of the structural adjustment lending approach because there had been so much controversy I hadn't been able to get them to agree in principle that we would go ahead with structural adjustment lending and it would be X percent of total lending. But I brought these, I think, two loans forward as moving in that direction.

Belgrade at the annual meeting, and I think--and I should check and see if I [*apparently moving to get a publication*]—I think that at that annual meeting I in effect announced, I used the annual meeting report, as I had so many times, as a means of establishing new policies in the Bank. I think at that meeting I announced it as a *fait accompli* in a sense.

But let's just see, "Political Development Policy in the '80s" and afterwards, hindsight, you know [apparently searching through a number of publications and documents for the particular one] "Approaches to International Development Strategy," "Official Development Assistance," "World Trade Expansion," [*inaudible*] "The World Bank in the '80s," "Financing Structural Change in the Adjustment Process."

LEWIS: There you are! There you are.

McNAMARA: And I just put it forward--I haven't read this in 12 years--but I think what I did was just put it forward as a *fait accompli*.

LEWIS: Well, you went ahead and made a couple, started making those loans in 1980.

McNAMARA: Yeah, I think--I might be wrong, John, but I think we made one or two before that was put forward as a policy--without a policy or without acceptance of a new lending approach, I got one or two by, I think. But then I put it forward as a *fait accompli* as a policy, and nobody got up in the meeting and said, "This son of a bitch! We're going to throw him out tomorrow!" So we went ahead with it.

LEWIS: Who was, after yourself, the principal conceptualizer of that? I suppose it was Ernie, huh? No?

McNAMARA: I would think it might have been Hollis.

LEWIS: Hollis, right, huh.

McNAMARA: Hollis was still there.

LEWIS: I see.

I don't know how much--we've got to get out of your hair.

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McNAMARA: No, that's all right. I'm . . .

LEWIS: Okay?

McNAMARA: Yeah.

LEWIS: Take the China, Tiananmen Square thing, reminds me about human rights and the--it's this question of the role of the Bank vis-a-vis noneconomic issues.

McNAMARA: Yeah.

LEWIS: The--you must have had some feelings about—the Bank has been anxious to go resume a lending program to China.

McNAMARA: Absolutely. I've got a very clear view of that, and it is this: number one, we as a society mis-define "human rights". We define it as equivalent to civil rights; that's an erroneous definition. Number two, human rights has at least two components. One is what I'd call economic and social rights, and a second is civil rights. Number three, the Bank by its charter is precluded from taking account of other than economic objectives and performance. The economic and social element of human rights is an appropriate consideration for the Bank to take account of, in my opinion. The civil rights element, unless it has economic and political consequences, economic consequences perhaps through political consequences which have economic consequences, is, I would think, of questionable, a questionable consideration. Number four, I think it is absolutely wrong for the Bank to yield to pressure from a particular government to take account of a questionable consideration, i.e., civil rights, particularly when that government, i.e., the U.S. government, is applying the standard non-uniformly.

Now, the Carter administration, which in one sense I was close to--my son-in-law worked in the Security Council and so on, and Carter gave my wife the Medal of Freedom some few days before she died, so I'm sympathetic to--nonetheless, in my opinion, A, pressured the Bank wrongly to take account of civil rights as a matter of principle in *[inaudible]* the Articles; and, B, wished it to take account of it as a result of the unilateral decision in the U.S., which I think was wrong even if it would have been some consideration we should have taken account of; and, C, worse than that, applied the standard unevenly. You know, they'd say to us, "Well, you can't loan to Chile, but go ahead and loan to South Korea."

Now, I can tell you that the civil rights in South Korea at certain points were a hell of a lot more restrictive than they were in Chile. For part of the time I was at the Bank, the president of South Korea had a gun on his desk. That was a pretty rough, tough outfit. Economically, they--I thought they made magnificent use of the funds and the *[inaudible]*. They just plead for our advice, but in terms of civil rights, hell no! And the reason was that, you know, Carter was concerned over--the Carterites were concerned about the Soviet influence and what would happen if South Korea rebelled against us at the Bank or whatever, whereas they didn't give a damn about Chile. The cold war was still being fought on the Korean peninsula; it wasn't being fought in Chile. So they were therefore anxious for us to be tougher on Chile than we wanted to

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be on South Korea. And I think this is absolutely erroneously judgment and totally wrong, and therefore I wouldn't follow it. So--and I feel that way to this day.

And to go back to Tiananmen Square, I think this nation today totally misjudges human rights in China, that in terms of civil rights Tiananmen Square was an absolute disgrace. No way can that be justified. In terms of basic economic and social advance, they're way ahead of the Indians or a number of other societies that we, the U.S., support assistance for.

LEWIS: That's a pretty full answer, right on the--you mentioned Chile again. We came across a memo--I wonder if you remember it; 1976, I think--Mahbub sent you a sort of reflective, rather long memo criticizing the Bank's history vis-à-vis Chile.

McNAMARA: With respect to Chile. I don't remember it at all, but I remember very well Chile. Now, let's see. Allende was killed in '73. '73. My son had been down there for two years. He came home to see his mother and me in July before Allende was killed in September of '73. He'd been down there for two years so I knew a little bit about Chile.

When was the—I've forgotten where I was going—the U.N. . . .

KAPUR: '72 [*inaudible*]

McNAMARA: UNCTAD. '72. I went down to Chile for that, and when I was in the city Allende asked to see me. So I went to see him, and he had the guy who was killed, you know the ambassador who was killed . . .

KAPUR: [*Orlando*] Letelier.

McNAMARA: Yeah--with him—and whom I never liked, by the way. And he had--I think it was the finance minister, a guy who was a real hard, tough-line communist. And Allende wanted to know in effect why we weren't lending. And he said, "I know why. The CIA'S against it and you've knuckled under to the administration, the Nixon administration, and that's why you're not lending."

I said, "No, that's not it at all. That doesn't have a damn thing to do with it. I don't knuckle under to the U.S. government. We're not lending because you screwed it up." I've forgotten the figures, but my recollection today is that they'd had a 350 percent inflation, price inflation, and they'd had an adverse trade balance, and he was really, really screwing up the economy. And I could see this finance minister sitting there, and the net of it was that I judge that Letelier, whatever his name was, was far to the left of this hard-line communist. The hard-line communist in a sense agreed with me that they had screwed up the economy, and what had happened was that he had been trying to persuade Allende to manage the economy in macroeconomic terms in a more balanced, sustainable fashion, and Allende had been listening to the far left, I thought. It was the Naxalite equivalent of Bengal, Naxalite equivalent.

And so Allende says, "Well, that's what you say. I know all that stuff. It's the CIA, and it's the Nixon and all that bunch there. They put pressure on you. You yielded to it. You're not going to."

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I said, "Mr. President, I just told you. It's because of the way you're screwing up the economy."

"Well," he said, "If we're going to change."

I said, "Okay, then we'll start lending."

He said, "You can't lend. There's nothing in the pipeline."

I said, "Well, there's nothing in the pipeline because you screwed it up for so long that we decided not to lend, you know, a year or 18 months ago, and that's why."

"Well," he said, "there isn't anything in the pipeline, and we're getting ready to change. And when we change, you won't be ready to lend."

I said, "I'll make you a deal. I will go to the Board and present a project preparation loan X." I don't know what it was, five or ten million, something like that. "We'll get to work immediately with your people to prepare projects. Now, not a one is going to go to the Board for lending until you make these policy changes you're talking about."

He said, "We're going to do it."

So I came back, and right at that time we went to Nairobi in '76 for the annual meeting—oh, Nairobi, '73, yeah, '73; it was Nairobi. We went to Nairobi, and while we were in Nairobi he was killed. But I was intending to go forward with this project for a rationale—that was '73. You talked about Mahbub's memo in '76. I have zero recollection. Maybe by that time we weren't doing all we should have been doing. I don't know.

KAPUR: But Knapp's memo in '72 raised the *[inaudible]* the issue of expropriation comes up very frequently . . .

McNAMARA: I don't think that--well, expropriation was an important issue for Burke, and we had some expropriation problems. Egypt had some expropriation issues. And of course Zaire--the expropriation of the Union-Miniere properties in Zaire which I went to Zaire to Kinshasa once to with Burke to try to resolve and which we finally did resolve, as a matter of fact. So Burke, Burke was particularly sensitive to expropriations.

I don't recall the Chilean expropriation issues. And what I do recall is--and that I'm almost certain that if you go back and look at you'll find was the economy was so mismanaged that we would not have been justified in putting loans in there.

LEWIS: Mahbub's memo was more in terms of short-term versus long-term stabilization in a sense from a micromanagement versus institutional restructuring.

McNAMARA: Had we resumed lending by '76?

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KAPUR: Yes. That was what he was basing his

McNAMARA: Okay, but we had resumed lending, and what he was arguing was that we should shift from project to structural adjustment or something like that?

LEWIS: Yeah, and he was thinking about really sort of social class almost restructuring.

McNAMARA: Yeah. I don't remember it, except I do recall this. No, I'm sorry—this was later, this was under [*Augusto J.*] Pinochet. When did Pinochet--well, no, wait a minute now, wait a minute. Pinochet was there then. Yeah, absolutely.

I don't recall Mahbub's memo at all, but I do remember--and you correct me if I'm wrong—I remember that we had a guy in the, on the economics staff who had come from the University of Chicago, a very bright economist, Chilean. He went back to Chile, and I think he became economics minister or finance minister under Pinochet. And I recall very strongly that I was very critical, at least in my mind, of Pinochet because he was pursuing a policy of adjustment that put a tremendous burden on the poor. And I was a trustee of the Ford Foundation at the time, and some of our Ford Foundation people, Peter Bell, for example, believed--as I believed--that Pinochet's so-called Chicago School of Adjustment was excessively brutal in its impact on people. So my guess is--you'd have to check this--but my guess is that we weren't lending as much as some people would have thought we should. I'd be surprised if Mahbub was one of them because we were concerned about that approach. But I--as you indicate we were--I believe we had resumed lending.

KAPUR: Mahbub's basic point was, essentially, he thought the Bank was being much kinder to Pinochet . .

McNAMARA: Oh, kinder! Oh, okay. I'm sorry.

KAPUR: . . and had been too [*inaudible*] both in terms of . . .

McNAMARA: Oh, okay, I misunderstood you. I think he was—well, kinder in the sense that we accepted what I very much opposed, that, as I told you, that Pinochet was what I would call “brutal” on the poor. But he was following a policy, macroeconomic policy which in hindsight is proving correct, and which there was reason to believe at the time-- at least some believed at the time--would prove correct in macroeconomic terms. I was certainly not enthusiastic about supporting that. I remember that very, very well. And to tell you the truth, to this day I don't know whether what he did was right or wrong. I don't know whether—I'd be interested, John, to hear your all's view—but I don't know whether with hindsight the poor would be as well off today as they are if Pinochet had done more what Mahbub and I would have liked to have him do, now that you mention it. At this point I think my view is probably the same as Mahbub's, that we should have or that we, the Bank, should have attaching more conditions to our loan. We should have forced him to give attention to social problems. The question I think I would have to ask myself today, and I don't know have the answer to, had we done that, had he accepted our advice, would the poor be as well off today?

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WEBB: *[inaudible]*

McNAMARA: That's right. You're absolutely right. You're absolutely right.

WEBB: To achieve that—see, I think Mahbub's memo is—I disagree with Mahbub's memo about that because--maybe it wasn't *[inaudible]*--during the '80s Chile developed an economy on a par *[inaudible]* of the world . . .

McNAMARA: I realize that, but the price, the price of the second half of the '70s I think in terms of human misery to the disadvantaged was very, very high. Now, could that price have been avoided then without penalty to those same people today, I'm not sure.

WEBB: *[inaudible]* whether anyone has another way of . . .

McNAMARA: Well, that's exactly, that's exactly the question I raised. I don't know the answer to that one.

LEWIS: You just in passing said something that I'd like to follow up on. You were talking about structural, about program loans and using them for restructuring, and you said you and Mahbub, if you now you think about it, would have liked to use, to put some more pressure on the Pinochet government to . .

McNAMARA: Reduce the impact on the poor.

LEWIS: . . reduce the impact on the poor. So you'd use--one of your objectives, then, would not just be macro management, but it would be actually to move a social

McNAMARA: Yes, yes. Absolutely, absolutely. And I . . .

LEWIS: Did you talk about it? Did you have that in mind in the late '70s, do you know, because I don't think it's ever--it's been talking about in the Bank a little bit during the '80s.

McNAMARA: I can't say that--I can't say that we had the positive objective in mind to use the structural adjustment loans . .

LEWIS: To push education.

McNAMARA: . . to push education, whatever, but I do believe we had in mind the negative effect: don't apply structural adjustment in a way . .

LEWIS: Structural-adjustment-with-a-human-face kind of thing.

McNAMARA: That's right. Exactly, exactly, exactly. Which is what I was talking about with respect to Pinochet in Chile at the time.

Well, some of these questions don't have clear answers today.

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LEWIS: No, they don't.

WEBB: It's awful when you're in these . . .

MCNAMARA: Yeah, that's right, or president of the Bank!

LEWIS: Well, this has been great. I think we'd better . . .

McNAMARA: Okay, well, it's been fun talking to you.

LEWIS: It's wonderful for us.

[Interruption]

McNAMARA: . . . to be more heroic than they were at the time, or at least more correct in their judgments than they were at the time.

LEWIS: Absolutely.

[End Tape 2, Side A]

[End of interview]