WORLD BANK HISTORY PROJECT

Brookings Institution

Notes of interview with

<u>ROBERT S. McNAMARA</u>

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Session 1
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Washington, D.C.

Note: The World Bank Group Archives does not have either the tape or the transcript of this session, the first of 4 interviews the Brookings team conducted with Robert S. McNamara. The notes of the session, with their original footnotes, are reproduced below with format as in the original notes. Original Brookings insertions are in [ ]*; insertions by World Bank Group Archives are in italics in [ ].*

McNamara started by mentioning a piece he had been writing on Africa, wherein he asked if Africa's problems could be successfully dealt with. Looking at the record in Africa for the past 5 - 10 even 20 years, the answer was no and this included the World Bank. In this context he mentioned the quote from T. S. Eliot:

"We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time"
[from "Little Gidding"]

The first 90 days at the Bank were crucial. He had to present a budget and decided to prepare a 5-year plan/program. Prior to this he didn't know anything about the Bank--he had been vaguely interested in it. He went in on a Saturday to his office and basically saw that there were no 5 year plans [absence of long-term planning] and before that the amount the Bank was raising and spending was a pittance. He looked at an atlas and saw that there were many countries where the Bank was not lending anything at all.

From his Bank Management Professor at Harvard (Professor Ebersol?) he had learned two important lessons:

1) "Always set up a reserve for a risk you know not where"
2) "There's nothing you can't buy or sell at a price"

[He was] perturbed by the low value of borrowing--estimated that between '63-'68 it was about $500 million or only approximately $100 million a year.[1] The second thing

[1] Actual Bank Borrowing in these years was as follows:

Year	$ Million
1963	0
1964	0
1965	200
1966	175
1967	400
1968	150

(unclear if it was done before or after McNamara became President) that struck him was that this was a development institution and not a commercial bank. The question therefore was what were the [money] requirements for projects with a high (15-18%) ROR.[2] In posing the last question to the Bank, he found that there were not enough projects. So he asked them to prepare a 5-year plan based on this new philosophy, i.e. a) that the Bank is a development agency, and b) we can raise the money we need for all projects which have an appropriately high rate-of-return.

Therefore, within 70 days (since the Annual meetings were within 90 days), he gave the Board the new plan calling for a doubling (in real terms) of the borrowings, lending and a corresponding expansion of the staff and budget of the Bank. Leaftig [spelling?], *[Pieter Lieftinck]* the Dutch chairman and ___ of the Board put his foot down and refused to approve saying that this was a bank and not a development agency. McNamara countered by threatening that either they approve or they look for a new President by next Monday. The Treasurer (of the Bank) also felt that it could not be done. His attitude, coupled with a poor bond issue, led to McNamara sacking him.[3] This bond issue for a "goddamn measly", "lousy" $17 million Swiss francs bond issue fared poorly in the Swiss markets. According to McNamara, he never forgave the Swiss bankers for this--after this he would always talk with them with his hands in his pockets. It gave the Bank a lot of bad press coming as it did around the annual meeting.

While until then the Bank had been primarily involved in infrastructure projects, it now got into macro-policy and social sector issues--particularly population and education while increasing its agricultural operations considerably. Education lending had already been initiated by Woods although it was only for secondary education[4] and technical and vocational training. But McNamara firmly believed that the Bank should get itself into the fundamentals of education and that meant primary education.

Population was an even bigger problem because of religious opposition. The Dutch Executive Director, a Catholic [not Leaftig *[Lieftinck]*] was almost like *[Jesse A., Jr.]* Helms. He almost went against the wishes of his own government on personal religious grounds.

Opposition to these changes in Bank lending programs also came from those who left the financial markets would not lend for "non-hard" (or "soft") projects. His reply was that he would personally keep a list of those who buy Bank bonds and are so stupid to buy for power plants etc...when educational levels are poor and the population is exploding.

Before he came, the Bank's record in program loans including India, was lousy because of poor macroeconomic policies. One reason of course was that the Bank was

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[2] This latter question was particular in reference to those critics that felt increasing lending to high risk projects would undermine the Bank's financial stability.
[3] The Treasurer was probably Robert W. Cavanaugh who was succeeded on November 19, 1968 by Eugene Rotberg.
[4] The first educational loan--an IDA credit--was to Tunisia in 1962.

restricted by the articles of the Agreement. Structural Adjustment was his term and he went public with it in the 1979 Belgrade annual meetings. It took 3 years to sell the concept to the Board.

McNamara used annual meetings speeches as a basis of presenting policies and introducing them before asking the Board for approval.[5] This was a conscious decision.[6]

Sound foundations of development rest on:

a) Appropriate macro-economic structures
b) Sound fundamentals of health and education

Until then the underlying philosophy was that GNP growth was enough—at least that was the unspoken agreement. But visiting the 3rd World, "seeing the god-awful slums--what's going on here?", it seemed very clear that the trickle down effect was not working. One indication of the non-attention given to this issue (at least in official circles) was the near absence of data on income distribution. For example, if one looks at the 1980 WDR *[World Development Report]*, the tables on income distribution (which he designed himself) are almost blank. Despite *[Hollis]* Chenery's objections, he insisted that they be kept because the very absence of data might prove something.[7]

He loves Al Fishlow because[8] he got tapes from Fishlow on Brazilian income inequality. He then began introducing this information in reports to the Board.[9] The Finance Minister of Brazil was furious claiming that the information in the tapes was wrong. McNamara told him that the tapes were from his own country and asked him to look at the tapes himself. Six months later the Finance Minister got back to him saying that while the tape was right the conclusions drawn were wrong--McNamara did not understand the stages of development. If education was skewed, so would income distribution be.

His approach to poverty has been that low productivity is the major cause of poverty; and the cause of low productivity is their minimal access to capital. Therefore, increasing the access of the poor to productive capital was the necessary [and sufficient?] condition to alleviate poverty. Hollis did a lot of work on this issue. The emphasis on poverty was [therefore] not driven primarily by an income redistribution bias but rather

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[5] Although for SALs it seems that the Board was _____ for quite some time prior to the Belgrade speech?
[6] Was it to preempt the Board? Or , through his weekly lunches with the EDs, did he already informally sound out the EDs, so that the consensus already existed in the Board?
[7] If one looks even at the 1989 WDR it is clear that matters have not improved significantly--does it show to what extent the Bank has really regarded this issue to be of any significant importance?
[8] Next time we might ask him on the Al Fishlow vs. Anne Kruger story. Clearly he seems to be favorably disposed towards Fishlow. Did external pressures force his hand then?
[9] Check on this.

with the intention to improve the productivity of low productivity elements of society. Consequently, the diversion of resources into poverty programs would not affect growth--hence, the "Redistribution with growth" philosophy.

SAL and poverty programs are all part of a whole,[10] most elements of which were conceived in the first 90 days in office. Exactly the same as when he moved in the Defense Department.[11] He didn't have any fixed views and asked naive but fundamental questions.[12]

His thoughts were fundamentally correct in their direction but poorly executed e.g. population:

a. superb job in defining the problem, and
b. putting it to the world
c. went to Argentina (with Kate *[Katherine]* Graham) for the Hemisphere's Publisher's Conference to give a speech. At the airport, they were met by the Central Bank governor and his wife who damn well nearly spit on him (because there was advance word that McNamara was going to talk of the population explosion and its attending problems). The speech got a better reception in Brazil from publisher Robert Campos [name?]
d. The Bank was way ahead of the rest of the World--2 population loans in Kenya--1972 and 1979. Despite all the things that should reduce fertility occurring in the interim, fertility actually increased. And to this day people are not [adequately] addressing the population problems of Africa

When he came on board the unspoken premise was to maximize the rate of GNP growth. The corollary was that if you focus on poverty you will sacrifice growth. But trickle down clearly was not working.

[So in effect he] sees his story as one piece with lots of discontinuities. At the same time[13] management efficiency increased within the organization; OED audits of Bank projects were started; relative measures of efficiency, with respect to AID and ADB. were introduced.[14] [Regards] a bunch of baloney that the Bank ever pushed the size of project lending at the expense of quality. The common held view is that what holds back these countries is inadequate finance. And if the quality of lending is maintained then...

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[10] Wholistic approach
[11] Need to get some accounts of McNamara's first few months in the Pentagon
[12] But what was the existing mind set, e.g. from his Ford Foundation meetings--that caused him to ask some questions and not others which "locked" him for the rest of his presidency?
[13] Other noteworthy happenings in the institution
[14] Might be worthwhile to see if a) the practice has continued, and b) what do the numbers indicate

On balance [feels that] the Bank is pretty damn good; bad in Africa but that's a tough place.

[On credit worthiness] The Bank first went through only Morgan Stanley and First Boston. When he wanted to increase the borrowing program he told them he would get others. Morgan Stanley protested but agreed. First Boston threatened to quit if he went ahead and brought in others. McNamara in turn told them if you don't agree you are fired [they agreed]. Later Salomon Brothers and then Goldman Sachs and Merrill Lynch were brought in to be underwriters of the Bank's bonds.

<u>NOTE</u>:
McNamara claims that everything was done within his first 90 days because of the forthcoming annual meetings.

1) McNamara formally assumed office on April 1, 1968.
2) The Board meetings were on Sept. 30; thus, he had 180 days.
3) McNamara's name was proposed to the Board on November 29, 1967. He thus had 21 months to do some thinking before he actually joined the Bank (It's unclear when he actually quit his Defense job).