

THE WORLD BANK/IFC ARCHIVES

ORAL HISTORY PROGRAM

Transcript of interview with

Leonard Rist

Oral History Research Office

Columbia University

July 19, 1961

Interview with Leonard Rist

By Professor R. Oliver

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Q: Now, sir, will you identify yourself for the tape?

Rist: I am Leonard Rist, and until recently I was economic director in the Bank and now special representative for Africa.

Q: Would you tell a little bit about the circumstances which brought you to the Bank and perhaps something of which you did before the Bank?

Rist: Well, after my studies in Paris I came into a banking training period to New York with Blair & Company where a man of world fame was one of the partners, namely Jean Monnet, and I worked with him in Paris after that for about a year and a half. The time was then the middle of 1930, and the prospects of international financing by long-term bond issues was collapsing. I remembered then that when I was in New York two years earlier old Mr. Morgan had received me very courteously and asked me what the hell I was doing in any other place than Morgan's, exactly in those words; whereupon I decided to apply for a job at Morgan's in Paris, and I stayed with Morgan's ever since 1930 until 1945 except for a period of warfare, a period behind barbed wires in Germany where I stayed about 18 months. In '45 then the war came

to the end, or before the war came to an end, I was asked by the French Treasury to go as their representative to Austria in the Finance Committee. And I stayed in Vienna from August '45 until March '46, when the French Treasury again asked me to go to the Bretton Woods organization in that vague way. I accepted right away because I'd heard of them quite extensively both through my friends after the war and my friends in the underground during the war.

When I arrived in Washington—that was in the beginning of April '46.

Q: This was just after the Savannah meetings.

Rist: That's right. I was in Vienna when the Savannah meetings took place, and I was behind the Atlantic wall trying to bore little holes in it when the Bretton Woods meeting took place.

The French asked me whether I wanted to work in the Bank or in the Fund. And recalling my old youthful interest in long-term financing rather than short-term monetary credits, much to the disappointment of my good friend, the governor of the Bank of France, I decided to work for the Bank.

That meant that I was made alternative executive director in the Bank by appointment of the French, as an alternate to Mr. Mendes France. It had one great advantage—namely, that Mendes France was very intelligent—and another great advantage: namely, that he was never there, so that I had all the fun. So I

reported to the minister. Incidentally, I reported to three different ministers in the period of five months—one Socialist, one Catholic and one Independent. They were very much interested in the Bretton Woods organization and particularly in the Bank—for quite obvious reasons. They were already wondering whether they couldn't borrow. At the very beginning even before the Bank had its first meeting, Leon Blum was here discussing the big loan which assisted France right after the war and which was granted by the Export-Import Bank. And at that time already the question was whether the French application should be the first one for a loan from the World Bank. I said I saw no reason why it shouldn't be. As a matter of fact, I think it came in just about the same time as the Dutch loan, the Dutch application.

Q: Do you know whether the French had discussed this matter with the American government hoping to get a loan rather like the British loan?

Rist: They had been encouraged by Mr. Snyder, who was then Secretary of the Treasury, to apply to the Bank right after borrowing from the Export-Import Bank, because they knew it was necessary to get some more assistance at the time.

For two months and a half we stayed without a president, and we had a lot of discussions about future policies of the Bank among the directors. And two months after Mr. Meyer was appointed the French again contacted me and told me they had been

asked whether there was a French candidate for the staff of the Bank, that they would very much like me to be that candidate. That clearly meant severing my ties with Morgan for good. Until then I could say I was on temporary assignment outside the country.

Q: Do you know whether the request of the French government came from Mr. Meyer?

Rist: Mr. Meyer had asked them whether they had a candidate for the job as a department head in the Bank. I saw Mr. Meyer a few days later, and he offered me the job of treasurer. This was a perfectly natural step because of my experience in commercial banks and then in foreign exchange. I must confess that I told him then I didn't particularly care for this particular job because I had the feeling that it would probably limit my contacts with the outside, and I would be interested to know whether there wasn't another job which would be perhaps a little more extrovert and in which I could also make a contribution. He was a little taken aback, but with his usual kindness he said he'd think it over, and the next day he called me in again and said, "Well, the loan department has already been promised to the Britishers, but what about the economic department? Would you take that?" I said I couldn't resist the temptation in spite of the fact that while my name was the name of an economist, I personally could only claim some use of economics for banking

purposes. He said that was exactly what he wanted, and this is how it all was arranged. I think I became director on the 15th of August, '46.

Q: This implies that by that time Mr. Meyer pretty well had in mind the sort of departments he wanted to set up in the Bank.

Rist: I think he more or less was feeling his way at the time, but he had definitely four departments in his mind—legal, operations, economic and treasurer. The secretary was there; administration was already there; so he had practically the whole set up. And it was a sensible organization for a beginning. And, by the way, it was already a little different from the Fund operation, which was already divided by areas right at the beginning, although the Fund had a research organization plus operation—also called operational divisions or departments.

Q: And the executive directors of the Bank talked about organization?

Rist: No, this is one of the interesting things. There had been no discussion of the organization. There had been just one discussion which might be of some interest in connection with your inquiry. A committee was formed, I think it was after Mr. Meyer was president—I'm not quite sure, at the request of the Fund directors, a combined Bank and Fund committee, to study the

relationship between the board and the managing director or the president. I don't know whether anybody told you about that. The amusing part of it so far as I am concerned was that on the Fund side my French colleague, Mr. de Largentaye, was appointed, and Mr. Saad, the Egyptian director on the Fund board. And on the Bank side two people were designated by their board, myself as alternate of France, and more than anybody, a very remarkable person who was our then executive director from Canada, Bob Bryce, an outstanding person. He's a man you ought to try and see. It was an interesting two days because the discussion ran about this way: In the minds of our colleagues in the Fund, the Fund was more or less (they wouldn't use the word) a permanent international monetary conference. And therefore the Board members were representative of their countries, and they were the ones who would really handle the business. Therefore, they would be a negotiating body of a standing character. The managing director would be sort of secretary-general for the directors, and the staff would be very little more than a group of people doing the research and preparing the papers as desired by the conference.

From the very first minute it meant obviously that the powers of the managing director in the Fund would be relatively limited. The managing director of the Fund would depend on the will of the whims of his own board.

Q: But he was, as you say, rather a secretary-general.

Rist: Rather a secretary-general. As it turned out, the directors in the Fund still are more powerful than the directors of the Bank, because it went with a number of secondary considerations such as appointing the staff, fixing the salaries of the staff, all these minor little matters, which with no logic at all one also considered part of the prerogatives of the board of the Fund. This very largely faded away, as you know.

So far as the Bank was concerned, right away Bryce and I took a completely different attitude. There was no doubt the Bank would have to negotiate for longer-term investment, and therefore that it was impossible to have a group of negotiators composed at that time of 12 executive directors negotiating either one of them or with an applicant from a country which would not be directly represented on the board but indirectly only, and one negotiator on one side having to do with 11 at least on the other put the Bank automatically at a disadvantage. And both of us on the basis of what we knew of banking operations generally, without any consultation and just by instinct, not only accepted but proclaimed the indispensable need for a strong self-willed management; that the president would be the main negotiator and he could use whichever agents he wanted, so that the Bank would be represented in its negotiations by its own president, and further that its documents would be treated like the documents of an investment banker—namely, for the information of the negotiator (i.e., the president) and not for the information of the broad public at large necessarily.

Now, we started on that basis, and needless to say, this combined committee fell apart after two days, because there was no possible agreement between the two sets of people. The humorous part of it was that there were two Frenchmen on that committee who held completely opposite views because they discussed two completely different institutions.

Q: Did the other executive directors of the Bank share your and Mr. Bryce's feelings about this?

Rist: I don't remember how much discussion we had about that except that it was more or less private, and there was no insistence on the part of our directors that any committee of that kind be resumed. So far as I know, it was never resumed. It didn't even end up in a report. We just reported that we hadn't been able to agree, and that's the way it stood.

Q: And this was all before there was even a president in the Bank.

Rist: I'm not quite sure Mr. Meyer was already there, but I doubt it. If I remember right, this was before Mr. Meyer's appointment. Mr. Gutt, then managing director of the Fund who had been appointed right at the beginning, was quite anxious to have this relationship with his board clarified; and he encouraged that, because naturally there were some

misunderstandings in his own group. It was rather amusing to see that where there was a managing director, the directors didn't particularly care to give him a free hand; and where there was no president or if Mr. Meyer was there, no well-established president at least, the reverse feeling prevailed all the time.

Q: Well, as you say, the organizations were intended to do different things.

Rist: That was the real background for the difference of opinion.

Q: After you had become a part of the staff, what sort of things began to happen in the Bank? What were the problems of getting a staff together and what were some of the policy decisions which needed to be discussed?

Rist: Well, so far as staff were concerned, we were left with a pretty free hand. Right at the outset we had some problems on salary, and they have been plaguing us ever since. The main problem was that it was more or less a rule that we couldn't offer anyone, wherever he came from, salaries which would compare too favorably with salaries of American civil service, the objection being that the result would be that all the best civil servants in the U.S. Administration would then flock toward the international organizations, and this would be unfair competition

with the existing organizations here. I think it went a little further than that. It wasn't quite as disinterested as that. I think there was the fear that comparison of international civil servants' standard of living with the standard of living of the American civil servant may result in invidious comparisons that might embarrass some people in the American administration—not only lure them away. And to this day I consider that this has been a block in our organization. We have always been comparing our own salary schedules with the government of the United States so far as professional staff or secretarial staff, this still prevails, perhaps not quite as bluntly as at the beginning.

Another difficulty in hiring was that. . .

Q: That was one question about salaries—how do they compare with civil service salaries in other countries, or is this relevant at all?

Rist: To the foreigner the comparison is not with the civil service in his own country, but with the diplomat of his own country in a foreign land. This is where the misunderstanding has started, this is where it still lies, this is where it is going to go on, I'm afraid.

Another difficulty was. . .

Q: Excuse me again. Just one other question. Does this mean that the Bank has had difficulty over the years in getting the people that it has wanted to serve on the staff?

Rist: Definitely. And the difficulty of hiring Europeans has become greater and greater as the years go by because it's very difficult to lure somebody away from his own home to live in a foreign country unless you give him certain advantages. I made myself very unpopular by advocating an exile premium. The term was not considered proper. It wasn't meant to be. It was meant to be funny, but nobody thought it was funny. And the exile premium actually doesn't work. It was the other way around in effect because the Bank pays the income tax on the salaries of its American employees. The cost of an American employee to the Bank is greater than the cost of a foreigner theoretically. In fact, it isn't quite true because we have certain advantages in terms of home leave and travel. But on the whole I should think the net compensation is identical whatever the nationality is. The gross compensation is, I think, a heavier burden so far as Americans are concerned than so far as non-Americans are concerned.

Q: Would it be relevant to ask you to illustrate the difficulty in getting personnel with respect to any particular instance?

Rist: Well, the trouble is that these difficulties have increased as the years went by. The number of people. . .It goes a little further than purely the salary matter, of course. I've been mixed up in hiring personnel practically since the first day, and I'm proud to say that probably at least a third if not two-fifths at least of the staff has at one time or another trained by me, if you take the department heads. Even one of the vice-presidents I hired. Among the department heads there are two today.

Now, the difficulty of hiring Europeans, which were the only ones who had the training a priori (Latin-Americans didn't have the training; Asia only came much later in the game), where we should have found the competent people, the great difficulty is that the people didn't want to move away from their homes, contrary to what our American friends thought because after all they could have a better standard of living here than in their devastated countries. That isn't enough quite to lure people away from their homes. It did work into a few cases unfortunately, but they were not the best elements.

Another difficulty was that the countries themselves had a great need for their own best civil servants. I don't mind telling you that in '46 when the French asked me to join as a staff member, to let my name be put forward, they told us very frankly: "Look, if you come back, you're not going to join the government. If you come back, you're going to go back to your bank. And we'd much rather you served the government now because

we don't have any people. You serve the government by joining the World Bank. This is one way from contributing someone from our existing staff," who were all friends of mine anyway. And this scarcity of competent brains was true all through Europe.

Now it's even worse, because now not only governments but business is relatively prosperous everywhere, and the prospects for not only devoted work, but prospects for attractive careers are considerable, and people don't want to leave their prospects now. And finding Europeans has become really a major headache. It's even worse now than it was after the war. After the war you could tell them it was for a national purpose. I'm quite sure that if I were asked to join the Bank today working in a Bank in Paris, I probably would not be offered enough to attract me.

Q: Is this related in any way to a decision which apparently was made some time in the middle '50s that people in high positions in the Bank would be promoted into those positions from within rather than sought from without?

Rist: I'd rather not comment on this.

Q: I interrupted what you were saying a little bit ago about other things that were happening in this very early period. You were talking about salaries, and then I think we were about to mention some other aspects. . .

Rist: Well, one of the initial difficulties, but this has disappeared completely since then was that the then vice-president, Mr. Smith, had a queer idea about salary schedules. And to him there was to be a considerable gap between the salary, say, of a department head and the salary of his assistant or deputy; and there ought to be also a considerable gap between the deputy and his own subordinates. Now, I never knew where he got this idea from. It obviously couldn't work, and that made hiring new people and getting proper salaries for the new people extremely difficult. As far as my experience was concerned, I know this was quite a problem. This faded away six months later. That issue didn't rise anymore. As long as there was a ladder, it was not necessary that there be several steps between the subordinate and the superior, and that made everything much easier. That was a minor problem, but it did create a lot of fuss.

Q: Were there any other issues concerning administration, organization in this very early period we should mention?

Rist: No, I think it went pretty smoothly except for the fact-finding body. We were naturally overrun with non-Americans who had spent part of the war here and who thought it pleasant to stay around for personal reasons or other. And frankly it was a little difficult to select among them because usually it was the, shall I say, chances of war that had brought them here or the

mischances of war. And they were not necessarily the most adequate to fill the jobs we were trying to fill; particularly in the field of financial operations or economic research, it was a little difficult to find them.

A practical difficulty I encountered was the fact that Anglo-Saxon economics had made quite some progress during the '30s and during the war, and all the former occupied countries or the countries which had not been at war had not been taking part in it. This was a new language in a way, more perhaps than new concepts, but certainly new language; and finding economists who could speak that language and knew how to weigh the words they were using (using the language is not the same thing as understanding the words, as you may know, being an economist) created a problem of training—not in-training within the Bank but finding trained people who could use the language. Furthermore, the big problem I had (and this is, in my recollection, probably the most challenging one I had) was precisely to force the economists who had that training, because I did find quite a few in the end, to speak in a language that the bankers could understand. I also construed my function as director of the economic department as a translator translating economic language into banking language and translating the bankers' problems into economic terms. It was rather fun.

Q: Who were some of the economists that you recruited in those days that were particularly good?

Rist: Well, one of them is now a professor at MIT—that's Rosenstein-Rodan. He stayed with us for six, seven years—until '52, five years. Rosen was another one. He did pretty well. He was quite young at the time. I met him in Vienna, and that's why I wanted him with me here. John de Wilde came a little later. Among those who are still in the Bank, Rucinski was in my office, but I knew he was not going to stay as an economist—he was more interested in operations anyway. This gave him a chance. I suppose if you took a list of the economists in the Bank you would find four-fifths of them have gone through my office at some stage or other. Burke Knapp came but much later, and he didn't stay long in the office. He was sent to Brazil.

Q: What sorts of things was the economic department charged with doing?

Rist: Very much at the beginning we had all these economic reports to write. Quite frankly this was a big bone of contention between the loan department and our department. The economic reports: the great difficulty I had with them was to avoid, against practically everybody's wishes, that some kind of a standard be established for writing economic reports. Some people had the feeling that...Let me tell you why I changed the name of my department from research to economics.

Originally it got called research department. After all, the Fund had a research department, and after all the Federal

Reserve had a research department. Then I discovered a few things. I discovered that research in English may mean that you collected statistics and don't interpret them yourself, which is one thing I didn't want to do. I found that if you translate into Spanish, it means secret police department, and if you translate it into French, it means missing persons department. And since I was always interested in knowing what effect translations gave, I one day went to Mr. Garner and told him that I wanted to change the name. I gave him these explanations, and the first was the only one that struck him. The other ones he was not interested in. Anyway, it was changed to economics department. I had already Andy Kamarck with me at the time. He was a good recruit of mine. And Andy Kamarck's father-in-law came bursting into my office (his name was Goldenweiser) and he told me, "Leonard, why did you change the name of your department?" So I gave him the explanation, which I thought was convincing. But he objected. He said, "You haven't read my article."

I said, "What article?" An article he had published during the war, and therefore I had no access to it at all, in which he has described apparently research as policy making. I said, "I don't think this is going to prevail here. Meanwhile I prefer economics."

Well, policy making was really quite important, I think. The reports were all aimed at determining creditworthiness. As I said before, a few people wanted this to be set forth in the same

manner of, say, the prospectuses of bond issues in the '20s— foreign trade, main exports, main imports, foreign debt, budget and monetary set-up, not even monetary policy. I always objected to that, and I'm very glad I did because nobody objects to it anymore. The new system consisted of forcing the people to think of what their problems would be if they were in charge of the government, and their problems would be problems of policy and not problems of fact. The facts were only a guide to describe the policy and the past policy and possibly a guide to suggesting what the future policy would be. And history was very little more in this context than an indication of the possibilities of the future. And therefore each country had to be looked at as an individual and giving emphasis to different factors according to what country you looked at. It was a hard fight, a very hard fight, because it meant bringing to the fore elements which had been ignored in the previous report or which we didn't think were important and to convince people that policies were just as important as facts.

To some people, you see, you can judge policy merely by looking at the nose of the fellow who makes it. If you like his face, then his policies will be good, especially if you like his public utterances. Now, public utterances are made for the public and not necessarily a guide to what his decisions will be. And getting that element of personalities out and putting the elements of history first, social pressures and traditions of the country, where they belong, which is only as a background, as a

guide, and then going into the analysis of which are the forces which are actually at work. This, I think, the boys have learned, and I think they've enjoyed that. And the Bank now finds it not only natural but would be surprised if we didn't do it that way. It was only three or four years later that we began dealing with countries with development problems, and then the question became even more embarrassing because it forced the economists to try to have some view of what the shape of the country would be tomorrow. Now, that's quite a problem because you need your imagination and you need also some knowledge of the resources. The resources are not necessarily the only indication of what development will be. Ten years ago if you had told people the Indians would like to do this and they will do it, the question would have just been laughed out of court and would have been answered with: "What do they do now? They will do the same thing a little better or a little more. Why should they do new things?" Today when people talk of development planning we find it perfectly natural to accept the idea that people can increase the diversification of their own economy or push it one way rather than the other or let it be pushed one way or the other. These are all concepts which I think we have helped spread around and which are considered bread and butter today.

Q: It sounds to me like this helps to explain why it is very difficult today, or at least so it seems to me, to go down a list

and say: "These are the specific items which determine the creditworthiness of a country."

Rist: My insistence on policy is not quite in vain, because this has been really the issue. We still have some views as to what are good or bad policies, but we need another view, which is more than a shade of the previous one—namely: to what extent are these good policies likely to be lasting or to what extent are these bad policies likely to be changed? And this implies a judgment this time on the social pressures, on the political aspect of things, within the country, on the external political pressures that it may be subjected to, which I always considered as a fraction of the economic work. After having eliminated the opposition of those who believed research was limited to statistics gathering, I had a great fight to force my economists to think in social and political terms and to force the others to accept that this was part of the economist's job. I didn't say it was exclusively the economist's job. That was the big fight. In effect I said: "I want to have my views about Mexican economic policies tomorrow but that doesn't mean to say that you can't have yours. Then at least we can discuss them." There was a time when the theory would have been: "You don't have any right to have any views about the future of Mexican policy." It was never put quite in that form, but that was the implication. And this was very largely the difficulty in the famous fight between the loan department and the economic department.

It took some time until the management realized that people who had been in the country recently, however young-looking and inexperienced-looking, while not always right might have some direct views and personal opinions about these rather touchy subjects which to my mind are directly part of creditworthiness.

For quite some time—and I think quite naturally, and, more than that, quite rightly (and this is not finished, and I'm glad it's not finished)—it was considered normal to take the views of the New York community about the credit of such countries. However, this placed the management in the awkward position that if they were lending to the people who were considered creditworthy by the New York community by definition, then which part of the New York community would they go to—the business people who had acquaintances or business relations or simply a market down there? This was extremely useful, but my contention was simply that it was not the whole picture. And this has now been blended. I don't think we have stopped looking for people who know something about Argentina while they live in New York. I think it would be a great mistake. But now the people who come back from Argentina and who belong to the Bank staff do perform their function, too, instead of being in two separate compartments: we have the views of New York and you are supposed to have your own views because you went down there. Now we have the same people who go and talk to Anaconda or to Kennecott Copper before they discuss Chile or after they have been to Chile and get their views. And it's taken quite some time before the

boys who were employees of the World Bank were received by the New York Community. At the beginning it was: "The president is all right; the vice-president is all right; but who are these youngsters?" Progressively a blend has taken place which I think is an extremely useful one. Now progressively even the views of the European business people who are in any contact with borrowing countries are also taken into account. They do not prevail necessarily, but they are inevitably an additional element of information which cannot be just discounted.

Q: Were all these kinds of questions being talked about during Mr. Meyer's period in office?

Rist: Oh, yes. When Chile came up, it was under Mr. Meyer. Mr. Meyer was very desirous to have us talk to the copper people. When I told him I intended to, he was extremely eager to encourage me to do that. Some people thought it was perfectly useless. I didn't. Some felt that it should be exclusively the views of Kennecott and Anaconda that would prevail. I didn't agree with that either. From the very beginning we tried to do that.

For quite some time our management more or less did that function of liaison with the New York business world, and they were all the more keen in doing that that they were talking with practically the same people who would buy our bonds tomorrow. It was not only a wise move, it was a clever move to make them feel

we were taking them into account—quite instinctively. I don't think it was done on purpose, but it was just done because it was the wise thing to do. And it worked very well. It gave the New York group the feeling of participation which was very useful. It made them sometimes awfully indiscreet, to tell the truth. They wanted to know a little too much about these things, but that we warded off pretty well.

Q: I wonder if this might be a good time to discuss the origin of some of the standards of creditworthiness that I think now are pretty well established. For example, to name one, the requirement that borrowers not have any outstanding bonds in default.

Rist: This started with Chile actually. This was our first development loan. And McCloy, who became president when the loan was fairly advanced already, was perfectly well aware of the fact there was a default. After all, he was a lawyer and had dealt with international bond selling quite extensively during his previous career. And these matters of default annoyed him. And there was a well-known prejudice in the banking community in New York. The Export-Import bank was lending to all these defaulters and picked up the tabs when the New York bankers didn't want to lend, and would the World Bank do the same thing?

I think that the great merit of McCloy in this field has been (and Black was already involved then) to take a position

that it is not so much because we wanted to defend our own market or own bond, that we needed to please the bankers who would place our bonds, that we ought to insist on settling their debts—that wasn't the real issue. But the Bank's function was actually to bring countries whose credit is not sufficient to call on the market, to bring them to the stage where their credit will be strong enough to call directly on the market. I like to say that we lend to countries which are in the gray zone. We had two requirements—one is that there should be fair prospects of repayment of reasonable prospects, I think the articles say, and the other is that they can't borrow on reasonable terms: actually we interpreted it to say in the market. That excluded Bolivia for a long time. Now that IDA is coming in, I'm not sure it's going to be excluded still. It excluded Bolivia and it excluded Canada. In between the range is fairly wide.

For a long time the New York market refused even to consider these things, not to speak of the other markets. Paris was not an open market, and Switzerland was always more conservative than New York. As to London, it was devoting all its efforts to its own Commonwealth, and that was the end of it. And so for those countries which were not members of the Commonwealth, the question was: "Can we go to New York?" The answer was always no—systematically always no.

McCloy and Black put it to the 14 directors: since the function of the Bank was largely in the long run to put their signature back in the market, it was to their interest to restore

their own credit. And it was one of the Bank's functions not only to defend the interests of the bondholders—actually not at all to defend the interests of the bondholders—but to defend the interests of the borrowing countries in helping them to restore their own credit. And this I think was done not only with great skill but admirable consistency.

The first instance was the case of Chile, and it was McCloy who carried the ball, and he did it masterfully. The Chileans said yes. They haggled a bit. They had been negotiating with the New York market for some time, and they brought their negotiations to a conclusion. Bondholders had little to be happy about because the discount was still heavy. But nevertheless this was the first step. And right afterwards the Bank immediately accepted to sign the first loan, not as big as the Chileans wanted but at least something.

The next step was Peru. In the case of Peru it became a little bit more complicated. The Peruvians partly at our insistence settled with the American bondholders. They had not settled with the British bondholders. The Bank nevertheless said: "Since you have shown evidence of good faith with the U.S. bondholders, since furthermore you assure us that you intend to carry on in the same manner with the British, we will give you a first loan. However, there'll be no second loan unless you settle with the British." I don't need to tell you that the British bondholders were a little taken aback by that attitude, and immediately the Bank was accused of being too American and to

take care only of the interests of American bondholders. It wasn't quite put in those words but so close to them that I can say I'm quoting. It was an old friend of mine who said so, so I can really quote it. He's not accustomed to mincing words.

Q: Was this anybody who was connected with the Bank?

Rist: No. It was somebody who was connected with the bondholders committee in London.

Well, they were satisfied with the next step because the Peruvians actually settled with the British on relatively favorable terms, with the British bondholders, and only then did the second loan for Peru take place.

I think in both these instances the thing was played with great care, with great conviction, and this is one of the greatest services both McCloy and Black rendered. This has brought us into all sorts of trouble later on. The bondholders committees have always more or less counted on us to take their interests in hand, and we've had quite some problems in telling them they ought to do something about it themselves from time to time, which is only fair. The countries have always said that we took the bondholders interests into our hands, the borrowing countries, and we've had quite some trouble telling them it was to their interest and not to the interest of the bondholders as such. But on the whole I think the whole campaign has been not only successful but brilliantly successful.

Q: Has one of the effects of this been to stiffen the backs, so to speak, of the American bondholders and make it more difficult for the. . .?

Rist: No, this is quite remarkable. I don't think anybody can tell. But you see the fact is that we are the only agency that ever took that attitude. Neither the Export Import Bank nor any of the U.S. agencies dealing with aid nor any of the European governments which give guarantees on export credits have taken the slightest notice of the plight of the bondholders. We are the only one—meaning that in effect if you don't really get help from the Bank, you could get help from somebody else if pressure were exercised strongly enough. So that the bondholders are not in the position of feeling that we defend them against everybody. We can defend them against ourselves, but nobody else. I don't have the impression—maybe the negotiating countries would have a different view on that—that it has stiffened the backs of the bondholders committees. The ones I know best—the French and the Americans and also the British committee, and I know the Swiss a little, the Belgians I don't know—give me the impression that their dealings have on the whole been fair and unaffected by that. What is true perhaps is that they were perhaps less in a hurry to settle because the pressure was on the debtor, not on themselves. This is really an inference. I have no precise knowledge of it. My impression is that a lot of settlements have taken place since then which have not been on too favorable terms

to the bondholders and simply were due to the fact that they negotiated as they would have in the absence of these supports.

Q: At what point did questions of internal fiscal and monetary policies become a matter of concern?

Rist: Right from the beginning. My own assistants have always teased me because they say I'm too much inclined to pay attention to monetary problems, but I've always considered that extremely important. It did in effect have an amusing sideline, namely that our friends in the Fund, the research department of the Fund, were somewhat miffed when they found out that we investigated balance of payment, monetary policies, central bank policy and matters like that. The question of cooperation between the Fund and the Bank research department is one which has been long-standing. At the beginning I tried to resolve it through periodic luncheons with my colleague at the Fund. They always ended up with my having told him what I was doing and he having not had time to tell me what he was doing. At one time he even went so far as to tell me that he didn't think the word "balance of payment" should be used in the Bank. So that was the end of our luncheons.

Frankly this was not one of the issues on which I had the slightest problem in convincing anyone about it. I think if anything, there was perhaps a little too much insistence in the Bank on the dangers of inflation and the dangers of unwise

monetary policy, because you can't insist on it too much. Don't misunderstand me. But looking away from other elements, such as growth factors which are either evident or could be made evident and taking inflation as a basic data, while it may be an immediate problem but not a long-term problem, is precisely one of these points on which I think the keenness of the observer is really put to test—whether he can judge whether inflation which has lasted for 50 years in Chile is part of the structure of the country or whether it's something that can be done away with. In fact, for a long time I didn't think it could be forgotten. Now the Chileans have taken a different attitude. I would have been very surprised if this had happened ten years ago. With the evolution in the meantime, I was less surprised that it took place. But inflation is a danger in Chile, but it is not a danger which is as acute or as immediate or as threatening as it was ten years ago. Perhaps there was too much of a tendency of the banker's attitude, the commercial banker's attitude, to prevail. "They are the victims of their own inflationary policies and therefore they can't be trusted. They are going to go on the rocks." Well, it's amazing—the resilience to inflation of people who really want to survive. But this is certainly not one of the points on which it was difficult to prevail upon anyone as to how important it was. It was the shades on it which were perhaps difficult.

Q: When was the first time that you remember that the Bank actually decided that it would not consider lending to a country because of the country's internal fiscal or monetary policy?

Rist: I have two recollections, but I don't think they would answer your question directly. There is no doubt that in the case of Brazil there was a long interruption, and this was very largely due to the improvident management of internal finances in Brazil, which had disastrous effects on the management of things. That is a clear case where internal financial policy, not politics, was responsible for our denying further loans.

Another case was a little different. It went the other way around, as a matter of fact. This was the first discussion with Mexico. I went down with Mexico, and I discussed with the Mexicans their future financial and monetary policies. Whether it was during my mission or after that when I came back I set forth a few things which the minister of finance had told me he agreed to as the conditions under which we ought to be favorably inclined. This paper somehow had been sent to the Mexicans in the hope that they would make a statement to us saying that it was their policy, only a letter saying that they intended to carry themselves in this fashion. It would not be a public commitment. It would be a declaration of intent. Well, a few days before the final decision we found that we had no answer. Whereupon we cabled the minister of finance and asked him whether he would consider answering the letter in which we had asked

this. We didn't put that as a condition, but we indicated our interpretation of his policy and whether he would agree with that. The answer came very bluntly, a telegram, which said: "You don't read the press. See such and such issue of national something or other." He had made a public declaration which was word for word the text we had sent him. To say that he followed it to the letter would be absurd, but it was very gratifying. He not only told us it was his policy but told the public. He had added two or three things which were palatable to public opinion, which we didn't particularly show any interest in.

But when you ask me who did we refuse to lend to because of internal policies, maybe the French. This you would have to ask Mr. Garner about because I wasn't mixed up in those discussions. France got \$250 million in '47, and actually their application was meant to be for \$500 million. The reason given for not following up with another tranche was very largely that the internal financial policies of France were not considered as inspiring enough confidence to the management of the Bank. As a matter of fact, things turned out quite differently because this was the beginning of interim aid, which then allowed France to borrow some more on lenient terms. And after interim aid, as you know, the Marshall Plan set in so that our connection with the reconstruction loan was severed. But you might ask Mr. Garner why the French were refused a second tranche. I have a vague impression this was mixed up in it.

Q: Just as an aside, a question of interest, does the French case perhaps suggest that a nation which is undergoing inflation may be able to stop the inflation if it gets enough outside assistance?

Rist: Well, if certain basic things have been done, I suppose either with outside assistance or with internal discipline. Internal discipline, however, means reducing consumption. And when you've just come out of a war, you know, reducing consumption is not exactly healthy. I think this is one of the cases where one must credit the United States with great wisdom, not only generosity but wisdom.

Q: I'm just curious as to the chicken and egg relationship between inflation and increasing productivity, so that I'm really questioning, I suppose, whether the Bank itself is always sound in saying that inflation in a country is prima facie evidence that a country is not creditworthy.

Rist: No, we never quite went that far. The proof is in the pudding. We did lend to Chile two or three times when inflation was going on. We did lend to Brazil when inflation may have been stopped. I think we've been rather lenient in that direction. We even lent to Mexico when we were not quite sure that another devaluation would not be necessary in the foreseeable future. But somehow or other we always had the feeling that the

investment would be a part would actually be a contribution to
the increased productivity, as you say.

Tape # 2

Q: Now, sir, we were talking about some of the general aspects of creditworthiness. I wonder if you might comment on the question of the outstanding debt of a prospective borrower.

Rist: Quite aside from the story of the defaults, which we have discussed earlier, the Bank has naturally always been quite concerned about burdens arising out of debts to others; and fairly soon the accumulated burden arising out of debts to itself. This is a well-known traditional consideration when lending to anyone and to a country as a whole inclusive (there are cases where that plays a very little role), the internal public debt. Even that is not generally agreed. But foreign indebtedness is certainly an important consideration.

Why? Because to the extent that you service foreign loans you don't have the free disposal of the foreign exchange you have otherwise. In other words, it's an element of rigidity.

Immediately after the war, and in the first years of our activity, the amount of foreign indebtedness owed by most of our member countries did not appear particularly great. It appeared great in view of the then exchange earnings, and we usually took a very conservative view of the future developments of these exchange earnings. As a matter of fact, we probably erred on the conservative side in these times. It was quite natural for two reasons. One of them, the Bank has to be conservative in its

forecast, and the other one is because nobody knew how long it would take for the readjustment to post-war conditions to take place. I don't think any of us in 1956 would have been bold enough to foresee a continuous growth for 14 years. We would probably have been considered rash if we had said so, and frankly none of us dared think so. Therefore, while not necessarily considering that in 1946 or '7 exchange earnings were the pattern for the future—we didn't go that far in conservatism—we didn't expect spectacular rises in foreign exchange. At that time, therefore, the foreign debts appeared fair, if not heavy. And assuming a certain number of favorable circumstances, we thought a little more could be borne.

Now, as time went on, exchange earnings just shot up. The international trade, I think, doubled in ten years at least, if not more than that. The result was automatically that the capacity to bear foreign debt was increased. And as and when we received further demands for further loans to even the same countries, we could look upon their future with more optimism because a reversal of the trend didn't seem to be in the cards. We still continued to be fairly conservative in our outlook in this respect. Our projection of foreign exchange earnings has followed a rather smooth trend, of which perhaps in the long run we were always probably more optimistic for the next year and the following year simply on the basis of what we saw, and we disregarded systematically (and this was one of the difficulties) temporary setbacks, because we were always optimistic for

tomorrow more than for yesterday. We were right. I'm very glad to say we were proved right.

In the late '50s the question took a different turn again. All the raw materials traded in internationally suffered a setback. The coffee issue is a special one. This was the most dramatic one. Copper was no better, and even aluminum faded a little. Now, as soon as this spread like a general disease, the outlook for a number of our member countries became a little less, shall I say, continuously good.

It so happens that thanks to our previous steady conservatism, we don't have the impression that we have gone too far. What has happened in addition was a complicating factor—namely, borrowing from elsewhere. We had no monopoly, and we've always said that we didn't want a monopoly. The dollar lenders naturally were quite keen sometimes frankly to ride on our coattails.

More particularly, when long-term loans for basic investment became a little difficult, countries have liked to have recourse to medium-term indebtedness. And while not importing much more, they increase their immediate maturities by a fantastic amount. I think in the case of Brazil one can say that one-half of its total indebtedness is repayable within the next four years. And since the total indebtedness is not small, this really confronts the country with continuous refunding problems.

At that time, if you coupled the accumulation of short-term maturities with declining world price markets, world market prices, you inevitably get into difficulty. This is the reason why I say it was created, because it doesn't prevent the need for growth; it doesn't eliminate the existence of good development projects; it doesn't entail any, shall I say, negative judgment on the future of the countries' growth as a whole. It just is a temporary embarrassment or perhaps long-drawn straits through which they'll have to go. How long they'll be, that's up to the economist to appraise in the light (a) of the particular composition of the foreign debt of the country, (b) of the future market prospects for its main exports. Our commodity studies are not very old. We have started doing that only five, six years ago. I think we have been fairly successful in doing them for one very good reason. The management was not pressing us for quick results but accepted the idea that in order to arrive at intelligent conclusions in their field, one had really to look at a number of aspects. And the result is that when one looks back on our commodity studies, I think one can be fairly proud that the investigation was sound, it was very thorough, and the conclusions usually have been usually right. It would be absurd to say we were always right. But except for what I think would normally be considered as temporary discrepancies or erratic movements which are normal in these kinds of markets, the long trends which we limited ourselves to define (we didn't try to

define short-terms; that would have been the end of us) have on the whole confirmed our findings.

ICA was inevitably the consequence of the fact that now that the prospects for growth of foreign exchange earning are less encouraging, the quick growth of exchange earning, now that the debts accumulated since the war begin to hover and look pretty heavy, now that growth needs are unchanged and that the number of projects to be financed is, if anything, at least as great and some of them at least as attractive as they used to be.

Q: Incidentally, you said ICA a moment ago when you were talking about this. You mean. . .

Rist: I mean IDA. ICA is playing around with grants also but in slightly different fields.

Q: Can you say at what point in time the Bank may have decided that in a particular loan negotiation the outstanding debt of the prospective borrower was too high and therefore you decided not to carry on the negotiation? Would this be Brazil again?

Rist: Brazil was again the case in point. What other one could I think of. India is not a bad case. We have contributed to increasing the debt of India, and I think the Bank is fairly proud about that and rightly so. On the other hand, they have increased their own program. They are not dependent upon erratic

commodities. It's their overall export policy which is involved. And the latest operations in India have been a combination of Bank and IDA operations. I think this is the inevitable consequence of accumulated debt over the last few years.

Q: To actually talk about ICA, the American foreign aid program, does the Bank take this into account in deciding whether the external debt of a country may or may not be too large?

Rist: If the debt is owed in local currency, we usually have disregarded that. If the debt is owed in dollars, we certainly do. Any debt owed in foreign currency we take into account.

Q: What if the American foreign aid program were being given on a grant basis and there were prospects that this would increase the exports of a given country more than would otherwise be the case?

Rist: If it's a grant, it's not a debt.

Q: Say the debt is a very large debt to start with and if there were no grant program underway at all, you might decide that that external debt was too large. Might it be possible that given the grant program, you would then decide that the growth of the country was such that its external debt was manageable?

Rist: Yes, this is conceivable. I couldn't, however, think of a case where this has actually happened. But this is definitely conceivable.

Q: I wonder if we might talk just a little bit again about the political considerations in connection with borrowers. We've talked about the instability of a prospective borrower. Could we talk a little bit about another aspect of politics? Particularly I'm thinking, of course, about the Polish loans and some of the questions that arose in the early days of the Bank about whether the Bank could or could not lend to countries then becoming part of the Russian satellite system.

Rist: Well, the articles say that we shouldn't take political considerations into account. I've been asked that question abroad more often than any other. The general idea being "Of course, you favor American policy, and whatever the State Department tells you to do, you do." I have a very simple answer to that one. In my recollection there may have been cases where the American executive director was very enthusiastically in favor of certain loans. There have been cases where he was less enthusiastically in favor of them. So far as I know, we have never (I may be ignorant of some cases) made a loan because we were asked to do it by the United States government. On the other hand, I also add that it is perfectly true that the majority shareholder is in a position in effect to exercise a

veto, so that the political influence of the United States on Bank lending positions might be more negative than positive. The case in point, of course, is Poland--when the Poles asked us to look into their coal mining program. I seem to remember that Mr. McCloy even went to Poland to look at it, and he came back very well impressed by it. It was an excellent project. It was so good, in fact, that the Poles later on carried out under their own means, or perhaps with Russian assistance--I don't know; certainly they did it. The result is that for several years of coal shortage the Europeans rather gladly bought the Polish coal. But at the time the U.S. government made it plain that they had the impression that the Polish government would still fall into exclusively Communist hands and that therefore they were not inclined to support a request for a loan which would favor the oncoming Communist regime in Poland; that furthermore the tradition of the Communist regimes had been to deny the previous indebtedness, and that therefore for the safety of the Bank's portfolio it wouldn't be wise.

The manner in which it was handled was, thank God, very gentlemanly. So far as I can remember, Mr. Baransky, our then executive director for Poland, was told about the attitude taken by the U.S. government and that if the loan was discussed in the board, the U.S. director would have to take a stand against, which would be the first time in the Bank's history. The Polish director said that under those conditions he would consider

whether he would not withdraw or stay the discussion. And that is how the question never came up.

As you know, the Communists took over, and Mr. Baranski resigned from his job but didn't go back to Poland. So, it so happened that this was all done in particularly gentlemanly fashion because the Polish director was a great gentleman, and still is. It's a pity you can't get the story from him himself.

Q: Well, perhaps I can try. In what ways was the situation in Yugoslavia different when the Bank decided to make the loan there?

Rist: That's a good one. The situation in Yugoslavia was different in two respects from the traditional ones. Number one, it was a Communist regime. Number two, they had nationalized practically all foreign enterprises there, and full payment for these enterprises had not been provided yet—if I remember rightly, not even full arrangements for their future payments for these nationalized properties. Finally, they were in default on their external debt.

Now, this was a case where I think all the creditors of Yugoslavia considered that it was to their own interest that Yugoslavia be given a fair deal. I think this was perhaps the first case of a combined American-European operation. And it was coupled, if I remember right (Rosen would tell you more about that because he was directly involved), with commercial credits

granted by the European countries, including Germany, as a matter of fact, even then, with the British and the French among the greatest creditors, and they were among those who contributed commercial credits at the same time as we contributed our loan. I'm not sure that the U.S. was involved, but I wouldn't be surprised if it had been. In other words, there was an agreement on the part of not only the old creditors, whose claims had not been honored, but on the part of all the creditors to be that it was a good thing to have a combined operation. And actually it has helped Yugoslavia along quite considerably.

Q: But the American government didn't take the position that it would oppose this loan on the grounds that this was a Russian satellite?

Rist: Well, they were not really a satellite. Even if they went along, they weren't a satellite; and that made a difference. I think it is fair to say that it is one case where the political regime could have been an objection and wasn't, and it's all in favor of the Bank's claim to tolerance, I think.

There was one little point which was a recognition of the problem of the unsatisfied claim. There was one article in the loan agreement which said that the Yugoslavs would set aside in their budget a provisional amount sufficient to begin meeting their foreign obligations. It didn't go so far as to say that they ought to settle with their creditors. It just went so far

as to say "you ought to consider that a settlement is indispensable and for that purpose provide something in your budget." In other words, it was a middle ground: "you don't have to pay but make as if."

Q: I don't know whether you can help me further with this or not, but I think I should ask all the same. I've had some slight conflict in recollection about the Polish loan. Some people have said that the American executive director was positively prepared to vote against the loan in the event that it actually came up before the executive directors, and others have said that the American government, while lukewarm about the loan, still would have been prepared to vote in favor if the management of the Bank had strongly recommended it; and that what happened in fact was that the management insisted on terms which the Polish government found unacceptable, and therefore the Polish government withdrew the loan request, so to speak. Can you add any more?

Rist: The story as I remember it is the first version. There may be something to the second version, but I'm not aware of it. I think the second version would in effect mean that we would have made ourselves an instrument rather than a subject, passive subject; and it's my recollection that we were passive in this.

Q: The second interpretation, I think, would have been. . .

Rist: That the Bank was induced to ask for conditions which. . .

Q: Not so much that as the Bank was very conservative about the creditworthiness of Poland and therefore insisted that the loan be made in such a way so that the coal exports from Poland would in fact be the basis for the foreign exchange earnings to repay the loan, much like the timber loan to Finland some time after that, and that it was this provision that the Polish government objected to.

Rist: I don't think this would have been the real issue. It may have been raised in that form. It vaguely rings a bell. But I don't think that was the reason why we turned it down. I don't think the Poles turned that down actually. I think they were induced to withdraw purely and simply. I may be wrong, but this is my recollection.

Q: A somewhat related question requires a little explanation. I understand that today a loan application seldom is brought to the attention of the executive directors until the Bank's staff and management has done quite a bit of prior investigation about the loan, whereas in the very early days a prospective borrower might even come to an executive director to ask. . .

Rist: Nothing prevents a borrower from telling the executive director that he wants to borrow. I can assure you that they do

that as often as they can unless, of course, the director is someone that's totally indifferent to the country he represents, which I doubt is very often. I think in every case the executive directors have been kept aware of what is going on. At present, of course, Nigeria, for instance, which wishes to negotiate for loans, is not represented on the board. I doubt very much that the British executive director or the Canadian who's been treating the Nigerians as friends would not know about these applications.

Now, whether these executive directors, when they hear about it, talk to their own colleagues about it—that's the real issue. And I don't think they like to do that, very largely because they don't like to be embroiled in their colleagues' problems, which is natural; and also because their relationship with the Bank is usually straight enough to make, shall I say, a backstage campaign unnecessary—certainly at the beginning.

Q: The thing I was concerned about was whether the Polish experience had had any effect on this particular relationship between management and executive directors.

Rist: I don't think so. I think everybody on the board knew that there was a Polish application. Everybody on the board knew the problems concerning it. And everybody knew that the U.S. was getting worried about the government in Warsaw. I think this was perfect knowledge among the 12 directors.

Q: But the point is that perhaps this might have caused management as such to be a little more cautious in bringing to the attention of the executive directors the fact that loan applications were being received. They might have conceivably wanted to process the loan a little bit further to discourage. .

Rist: No, I think it's another aspect of it. What is an application? This is the issue. At the beginning, of course, the management was sometimes called upon to explain why certain negotiations had not ended with a proposal to the board. I think it's about that time, very early, that the Bank decided, "Well, we'll call it an application only when everything is practically settled." But today our board of directors receives information about the negotiations in process, and if it falls through, they'll know about it. The complaint of the executive directors is that they didn't know at all what the management was dealing with for a while. They were left completely in the dark, and progressively now—for five, seven years—they have been posted more regularly either in an informal way or in a formal manner with sheets that are sent to them from time to time which give them a fair idea of what the progress is. It has been, I think, a great mistake to keep the board in the dark as to what management was doing—first of all, because nevertheless the board heard about it; it was inevitable. And when there were undue delays there was no control over the negotiators to prevent these delays from being protracted. And it left management somewhat in

an uncertain position as to whether things were in a hurry or not—whether things were important, shall I say, for the group of directors or not. It's much better since the directors have been told. The directors have been told, and the result has not been that they have interfered—quite the contrary. Every so often we have a semi-monthly report to the directors which tells them the progress of our operations, including the travel schedules of some of us, which obviously is not very informative. But in most cases it gets a progress report which is fair. You'd be surprised at the few questions that are being raised.

Now, on the other hand, the director of the department concerned may get telephone calls from directors to find out what's going on, where the discussions stand, whether things are progressing for this particular project in which one of them may be interested, although perhaps not because it is his own country.

Q: Does the staff as a general policy respond when called by an executive director?

Rist: I always do it. I don't know what my colleagues do, but I always do it. If I find they are being indiscreet, I just tell them so politely. They're not difficult to ward off at all. They just want to be treated like intelligent beings, that's all.

Q: When was the period in the Bank's history that you were mentioning a moment ago where they were kept in the dark?

Rist: I think it would be fair to say when McCloy was president and then the beginning of Mr. Black's chairmanship. But it had to stop. They were groping for gossip. It became a real test. And there was no reason to keep them in the dark at all.

Q: How did this policy start in the first place?

Rist: You want a straight answer? Usually when I refuse to answer it's because I don't know what to say, and usually when people refuse to give information it's because they don't want to be asked questions that they don't know how to answer. It was uncertainty on the part of the management that made them uncertain as to what they should inform the board about. There were, it is true, sometimes questions which could have been considered indiscreet. With a little diplomacy these matters could have been handled very easily. Black has been brilliant precisely in his handling of informality. It is possible for a director to call on Mr. Black or on Knapp or on Iliff without breaking any confidence and getting enough information for them to get their curiosity satisfied, or being told: "Now, look, this is right in the process of negotiation. This is difficult to answer right now." We have been asked questions which refer to these things. I never found them difficult to answer. And

once self-assurance came to the management, no problem arose anymore.

Q: In other words, this was a time when policy was being formulated but it was not established and clear so that management. . .

Rist: I object to the idea that policy was formulated. Policy was never formulated—it was formed. It evolved. It resulted from events. And it changed with different loans. There were some negative positions, but there are less and less. Of course it's easier to go down a hill than to go up it. But policy formulations have been extremely rare. Even the issue of local currency loans, loans to cover various local currency expenditures; as soon as the issue was raised in very forceful fashion by an industrial country like Italy, it just fell through. It was so obvious that in the case of Italy it would have been ridiculous to force them to import goods which they could manufacture themselves. What they needed was finance period. The issue of policy just faded away. In the case of Brazil when they asked us to finance a project while they had many other imports to take care of which a loan would have taken care of better, then it was easier to stick to the principles as set forth in the articles. And I think we have not had many policy formulations. Maybe my colleagues have told you differently. Our articles have two or three precise things which

have given us more trouble than all the imprecision of other articles ever gave us. Thank God the board has abstained from giving us more than broadening interpretations on these things. It would be terrible if we had a narrow policy rules. Mostly it's just common sense.

Q: I've been told that it was decided at some point that there should be some statement about loan policy in the Fifth Annual Report of the Bank.

Rist: Well, that's a little different. If you read through that issue, you will find that a number of the issues which were at that time considered unclear or controversial have actually been tackled very frankly. It's one of the best annual reports, incidentally, and Dick Demuth was largely responsible for the working of that. It was a clarification job more than a matter of statement. Instead of refusing to discuss certain things, which I'm afraid has been sometimes a defense of some of us, the issues were plainly stated. I forget which they were, but there was one about financing only a fraction of the total cost of projects, financing imports rather than local currency things. There were two or three other statements of that kind. But the real policy issues were judgment of creditworthiness and the second one is the judgment as to the eligibility of the project. These things vary with each country, and these things vary with each project. You cannot set rules which are expressed in such a

way that they will be applied everywhere, or else you'd be so hamstrung that you would want to discount them right away. This is why I do feel that one of the achievements of this Bank is to be as little inconsistent with itself as it appears. There are inconsistencies but not many. They all can be explained by the circumstances of the case. But strict statements of policy I think would be a mistake.

Q: I wonder if you'd be willing to just speak a little bit as thoughts come at random on some of the events in the first two or three years of the Bank's history which sort of illustrate this proposition you've just stated; in other words, some issue would occur and the Bank would solve the issue in some given way without its feeling that this was necessarily establishing a permanent policy. What sort of events stand out in your mind in these early years?

Rist: You want negative proof? That's difficult to administer. I don't know. I don't really know. You'd have to take a country again, and you would find that this particular country has particular features. As soon as you make a distinction between the development and reconstruction, you've had your say on that—it's finished. Reconstruction loans were based on import programs. Development loans are not for import programs—they're for projects or groups of projects. Maybe they ought to be for import programs—I don't know. In fact, it turns out not to be

very different. It just so happens that the import programs, due to specific projects in most countries, are big enough to be isolated from the rest. It also happens that you can supervise the use of these funds more easily if they are related to one project. But otherwise, we'll have import programs one day or other. I don't think we'll be able to avoid it.

You know, one of the big issues has been to justify the fact that we were not spending the money unwisely, and that we knew what the money was going for. Now, a number of our member countries feel that this is a little unfair; we don't seem to trust them; we seem to imply that the money would be diverted. They say, "We have honorable budgetary procedures; we have honorable controllers; why on earth do you suspect us?" Now, some of them are right; some of them would be wrong, of course, in suggesting that. Most of them are right. But I think it doesn't take much effort to convince them that in order to protect ourselves against potential criticism, which comes not so much from really knowing it went the right way but not really knowing that it went in the right direction. They accepted that. That was not exactly your question.

Q: Perhaps you'd comment on the loan to Australia, which was in a rather different pattern from the ordinary project loan--rather more like the reconstruction loans, wasn't it?

Rist: I still don't know why we didn't repeat that. That's all I can say to that.

Q: Can you say anything about the background of the Italian loans that you've already mentioned? Because the Bank has somewhat changed its point of view apparently with respect to local currency.

Rist: Well, on that the Italians made it quite plain that they were not really short of foreign exchange, they were really short of funds; and that it was a general development effort which implied needs for all sorts of imports. So that in this case it became quite plain that if we wanted to concentrate on the imports for specific projects, we were going to deprive Italian industry from an opportunity to work, while in effect its general imports usually range from steel to coal, for instance, including possibly some luxury goods in addition to the resources of the country, all the import demands which rise out of an expansionist growth. This is what we had to finance. And rather than finance it directly, the central bank would finance it through the investment office so that we at least knew what this investment office in the south was doing. So it was associated with the financing of a series of projects included in that southern program. What was done with foreign exchange was quite frankly two things. One was to pay for current imports, and the other one was to accumulate some reserves in the central bank. And I

think it was an excellent thing, because this was the basis for further growth and we contributed there to infinitely more than we would have by sticking to imports of specific railroad or electric machinery that they were manufacturing.

Q: Was there any controversy within the Bank on this?

Rist: Quite a lot—for quite some time until we, shall I say, resigned ourselves to that.

Q: Resigned yourselves to the controversy or resigned yourselves to making loans?

Rist: Making the loan.

Q: Is there anything you would care to say about the controversy?

Rist: Well, it was a little acrimonious, I think it will be fair to say. It took some time for some of us to accept the idea that what a foreign loan finances is imports in general, and that there is an element of substitutability among them. This is not as easy to grasp as the fact that I need so many turbines for this particular project, somebody finances these turbines, and now I can import them and place them there. This sounds so simple. Actually, if they borrow for these turbines, they don't

use this same foreign exchange for something else. You know, it takes some flexibility of mind to get that. We got there.

Q: Could you say that there is still a policy, for lack of a better word here, that the Bank might make loans of this sort for countries which are capital exporting or at least heavy production goods supplying countries, whereas this would not be so likely in the case of a very underdeveloped country?

Rist: In the case of Finland not so long ago I think we gave them a loan which included the purchase of various foreign equipment, plus the purchase of locally manufactured wood processing machinery. It was a perfect case.

Q: What has been the Bank's policy—I keep using the word. . .

Rist: That's all right. In that case it fits. I just object to the idea of policy decisions.

Q: What is the Bank's policy with respect to financing imports of consumer goods?

Rist: Mr. Black one day was very unhappy about a headline which appeared in a Texas newspaper after he had made a speech somewhere, in Dallas or Houston, and it said: "I am willing to finance imports of corn into Holland to feed Dutch hogs but not

to feed Dutchmen." I think it was an unwise way of putting it, but it was a wise way of acting—perhaps not in a period of emergency, but in that case, then some other aid but loan money should be available. And I think financing consumption on a loan basis is nothing but courting disaster unless it is a temporary setback. What you do really is to borrow what you eat, and you can't borrow what you eat year in and year out. You've got to earn it sometime. Now, you can borrow money for your house or for preparing your field to be tilled. That's something else. Then you'll have the crop or you'll have the housing—you'll have the service out of it. But if it's only to eat better this year, no. If it's not to starve this year, it's a special case. But if it's to eat better this year, then I think this is the most catastrophic decision, unwise decision, that any country could make.

Q: In the case of the Italian loan did the Bank attempt to see that the dollars or whatever foreign exchanges it made available for the Italian central bank. . . .?

Rist: They looked away from it. They looked deliberately away from what they were doing with it. It went into the central bank, and the central bank used it for its current needs. Some of it might have been consumption, but this was not consumption which was unrelated to development. The purpose was not to increase the Italians' consumption. The purpose was to face the

additional demands created in Italy by the investment effort. Naturally new people were being employed; wages were going a little higher; and there were import needs either to manufacture what they were manufacturing or simply because the standard of living was going up. But merely to satisfy an increase in the standard of living would have been an error.

Q: What is the Bank's policy with respect to financing improvements in educational facilities or public health programs?

Rist: We never did it yet, but IDA is now getting a little interested. Health, I don't know. I don't think hospitals are much in the forefront. Water supply--after all, this is a preventive health measure--might be more immediate. Education, especially technical education, might be very soon for IDA.

Q: But not the Bank.

Rist: I doubt it really. I doubt it. Because a country that can really borrow from the Bank or exclusively from the Bank ought to be able to satisfy their own needs in that field. The countries that are either both Bank and IDA or exclusively IDA--for them current expenditure may be almost as important in the development field as investment properly said. And there is an element of investment in water distribution, in education facilities. It's a little artificial, I grant you, but at least

there's a relation. We wouldn't lend to pay the teachers' pay. We would lend to set up the school and put in the laboratories or the agricultural facilities if they're in a school for that purpose. I don't think we would lend to pay the teachers, not the recurrent expenses.

Q: Back just a moment to the actual chronology of the Bank's history, would you comment on Mr. Meyer's resignation and upon the assumption of the presidency of Mr. McCloy? Was there anything interesting in this period that can be remembered?

Rist: It was a very painful period. This was all purely an American affair, and non-Americans—whether governments, executive directors or staff members—were looking at it from a distance with some anxiety. This is true from the British down to the Bolivian in importance so far as their vote was concerned, or Panama, which is even smaller.

Q: Was there any feeling on the part of the staff that things were moving too slowly in the Bank in 1946?

Rist: No, we were quite active then. We were very active in '46. You know, we were confronted in '46 already with at least three of the four reconstruction loans plus Chile. We had just been established. How many were we? Probably 300 at the end of '46, not even that. And that includes all the secretaries and

administrative staff. We were horribly busy, and we were all learning. And in the post-war world, it's more difficult to learn than now. You see, names like France, Holland (Luxembourg was not known, but it was Belgium for all intents and purposes, economically speaking)—these names were all fairly well-known except that one didn't know what the effects of the war had been on them. But when it came to names such as Chile or Mexico, a few people in New York knew about these countries, a few people in Washington knew about these countries, but generally speaking, they were not well-known. The British knew about a number of Asian countries; the French knew about these people; Washington knew nothing; New York knew nothing. And the same thing repeats itself now so far as Africa is concerned. One has to learn here from scratch. People knew nothing about Africa. Now, the British knew about some parts, and the French knew about some other parts. That was the learning process. We started with Europe, which everybody knew better but which was so upset that one really had to study it from scratch. But knowing where it had been, it was easy to see where it would go back to. Actually it exceeded that by far, but it was easier to have a view of a building which had been destroyed and which was intended to be rebuilt in somewhat the same way than it was about these completely unknown parts of the world—not completely unknown parts of Latin America but the completely unknown parts of Asia and now Africa. This was really a discovery. And not to my surprise we discovered that in every single case the questions

were different from the previous ones. I think this is historically the geographic history, if you wish.

Q: So it took quite a time in this early period for the staff to decide what was to be done.

Rist: You see, France, for instance, was known enough that it wasn't felt necessary to send a mission there. There was a big enough French mission here to ask all the questions we wanted. They had just negotiated with the U.S. governments, so they were ready for answering them here. It was not very difficult. Holland was just about the same. When it came to Denmark, we sent a mission there, because Denmark was not well known. It's a fraction of Europe, though not a very important fraction. This was the first mission we sent. We had sent one to Chile, I think. No, Denmark we sent in '46 already--the end of '46.

Q: I wonder if you would say a little bit about the development of the working party.

Rist: I'm the author of it. I'm very proud. It is one of the rare cases when Mr. Garner jumped at an idea I suggested to him.

The development of the working party was due to this eternal feud between the economists and the operators, and I finally got so desperate about that that I went to Mr. Garner one day and said, "For God's sake, why don't we sit together? And in

order to make it a fair representation, couldn't we put lawyers there, too. And who else is interested? Then we will have all the people who have a say in this operation."

It didn't take two minutes. This was the kind of thing that an American bank was accustomed to doing as a routine. This was put through. I wouldn't say that it always went very smoothly. I never wanted to hear what happened inside. Personalities, you know, again are important. But this has been, I think, a very constructive operation. At least people knew what they were talking about. At least people, instead of throwing their junior ideas at the staff loan committee, threw them first in front of the group of colleagues of their own level and got the answers they either deserved or they required according to whether they were intelligent or not. It's still working, but it's always a little hectic.

Q: This was started after the staff loan committee was established?

Rist: Maybe the Staff Loan Committee wasn't called that to begin with. We always had it whether we called it Management Committee or Department Heads Committee—I forget what it was. The thing always existed automatically. Yes, it was a little later. I forget when the working party was instituted, but I suppose it must be late '48 or early '49, something like that.

Q: Would you comment on the reorganization of 1952, which changed the relationships of the economic staff?

Rist: My own view of it was, although I had nothing to do with it—I wasn't there when it was prepared, and I still regret that I wasn't consulted. . . . There were only two departments directly mixed up in the operation, and that was the loan department and the economics department. And the operations were infinitely too numerous to allow Mr. Hoar, my colleague in the loan department, or myself to do anything else but read up papers the whole day to find out what was happening. We just couldn't cope with all that. It was a perfectly legitimate thing to bring it up in areas. I was all for it.

Q: This had the effect, did it not, of causing the research staff or the economic staff to be taken out, so to speak, of the direct line of project planning?

Rist: That was the thing I regretted most and I still think was utterly unfair. At that time it was very much on the basis of American military tradition. The idea was to distinguish the line of command from the services. I don't think this makes any sense when intellectual endeavors are involved. It was intended to make it quite clear that the department of operations were in the line of command and the other things were only services. The department of treasury was in the line of command, but the

economic staff and the legal staff and something else was not. The operations department was in the line of command, and the legal, I think, and administration and economic staff were considered as staff operations and not in line of command. That was a deliberate intention to humiliate people in that thing, and to this day I've been humiliated by this term. I've always objected to it. I still don't understand it. This is pure American parlance, and I can only interpret as a voluntary slap. I'm going to be quite blunt about it, because I've always protested it, and I still protest.

Q: Has this had the effect of weakening the economic analysis that goes along with lending?

Rist: No. There was a committee created which was called the Economic Staff Committee. Since I had started all the economic reports under the head of the economic staff, a committee was created with all the economic advisers of all operating departments to review all the economic country reports, so that we could tighten up on the economic analysis. It became quite clear that the director of an operation or department, unless he was really interested, could not possibly follow very closely the writing of those economic reports. The purpose of the economic staff was to view the reports and make sure that they were properly put together and that the proper emphasis was given to again the individual elements which in this particular country

were dominant or should be dominant; and second, to assure that no inconsistencies of approach were taking place insofar as forecast of prices of commodities and things of that kind were concerned; that the approach to monetary policy, for instance, would not be too divergent according to different countries. Some of them used to say in the end: "Well, you know, according to Latin-American standard, this is not a great inflation." Well, this is one thing we wanted to avoid. A Latin-American department would discuss inflation in a different vein than they would in India. We wanted to insure some consistency. And finally, to make a kind of little summary of what the real economic issues of a country appeared to be via combined discussion by others. This is still operating, and I hold it's a very useful service.

Q: So that if an area department tells the technical operations department that a given country satisfies the general requirements of creditworthiness, the economic staff will have had an opportunity to get a comment on that.

Rist: The Economic Staff Committee it is called.