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Transcript of interview with

A. W. CLAUSEN

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By: John Lewis, Richard Webb, Devesh Kapur

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century,* Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

A. W. Clausen
June 8, 1992 - Final

[Begin Tape 1, Side A][1]

LEWIS: Well, look, I don’t know--why don't we just start from the beginning as far as the Bank is concerned and you and ask you about how you came aboard. Did you--I don't think I'm quite clear myself. You were—you were actually cleared by both the *[Jimmy]* Carter administration and the incoming *[Ronald W.]* Reagan administration. Did you talk with both of them?

CLAUSEN: No, I didn't. I talked with the Carter administration, or rather the Carter administration was talking to me. And I was saying “No” all the way along. I was the chief executive officer of Bank of America Corporation, and I wasn't very happy in my job. And I forget where the--the timing of the first inquiry. I think maybe in the start of 1980, first part of 1980, I went to the Alfalfa Club dinner, saw some Washington types. A couple of them said, "It would be just great for you to step in whenever that time came.” And then I think it was in June of that year when Bob *[Robert S. McNamara]* mentioned that he was starting his last year. On June 30, 1981, Bob would be leaving. In other words, in that summer some comments were being made, reaching a crescendo at the Grove, summer encampment of the Bohemian Club.

LEWIS: Ah, yes.

CLAUSEN: Some types up there, one of the so-called "power camps" which I'll not mention, were discussing who would follow on Bob McNamara. And at the lakeside the next day somebody sidled up to me and said, "You won the caucus."

And I said, "No, I just can't see myself; I can’t see myself being effective in government." And I kept saying no.

And then it came from kind of all sides--a couple of senators, a couple of former or maybe still were power players in Washington, government-types.

And so I was a member at that time of the Japan-U.S. wisemen's group; Bob *[Robert S.]* Ingersoll and Ambassador *[Nobuhiko]* Ushiba were the two co-chairmen of that. There were four U.S. and four Japanese, all in the private sector at that time. We met in Hawaii. So I decided I would take a month off from the Bank of America and not say anything to Bank of America and meet with the family and decide, make a determination whether I should pay attention to all these informal inquiries. And that was mostly the month of August. I was gone from the bank five weeks, didn't miss any board meetings.

Departed Hawaii. I was a member of the board of directors of Chevron, and they had a board meeting in Scotland for a week, so Peggy and I went on that. And I had my sons--we had our sons with us in Hawaii. We were there for two weeks, and we decided, "Okay, if it comes back again, I'll evidence interest and we'll play it. And if it happens, it happens. And if it doesn't, it doesn't." And it came back, came back again.

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[1] Original transcript by Brookings Institution World Bank history project; original insertions are in [ ]. Insertions added by World Bank Group Archives are in *italics* in *[ ]*.

So I want to say it was in--the Bank and the *[International Monetary]* Fund meetings were in Washington that year, and Secretary of the Treasury Bill *[G. William]* Miller then approached me. I knew he would because that's how it works. They never make a frontal attack and be turned down; they find out first what your--whether you would be interested or not, susceptible to an invitation. And I want to say--it was shortly thereafter; it was in early--it was sometime in October, then, that the Secretary, Bill Miller, invited me back to Washington to see then-President Carter. And it was a--because up until then it was--I was just under consideration, nothing was promised, but if the invitation came would I be, would I accept it--not inclined to, not only would I consider it, but would I accept it. And I said, "Yes," because I’d had enough time to think about this, "Yes, I would accept it."

Then it was right before that meeting that I determined--well, President--this was in October--President Carter was then the candidate for re-election against Governor Reagan, who was--I had known the governor. And I decided, "Well, you know, it's no shoo-in. In fact, I'm a Republican, and it looked like Governor Reagan was going to take the election. I want to make sure that I can pass the saliva test with candidate Reagan." So I suggested that to Bill, and Bill said yes, he thought that was entirely appropriate.

And so I guess, as I vaguely recall, President Carter and Bill Miller divided up the chores. Bill was to find out if I was agreeable to, acceptable to the Reagan forces, and *[inaudible]* said later that George Shultz was, carried the question to then-candidate Reagan. They were campaigning in Pennsylvania, as I vaguely recall, and George Shultz could tell you what candidate Reagan at the time said, something to the effect, "Well, left to my own devices, I might not pick Tom, but,” he said, “I have absolutely no objection. I know him, and as the president of the biggest financial force in California when I was governor, and he's a good man." Something to that effect.

I do remember when we were in the White House we were speculating when they dividing, who was going to do what, Bill Miller was going to touch base with some of the congressmen, some of the legislators, senators and congressmen, and President Carter was going to call, say, the G-7 countries himself, and Bill was going to take another group of countries, maybe 20 countries or so--I don't know how many, but that was my vague understanding.

And then we were saying, "Well, we wonder how long it will be before this hits the press, you know, three days, five days, next day?" And it was kind of a nonevent for a couple, I would say at least two weeks, maybe close to three weeks because it didn't--that process started in November, and it wasn't until, I want to say, the middle of November . .

LEWIS: After elections.

CLAUSEN: . . after the elections that it became--became visible. But the process was started before the election.

LEWIS: It was a carefully vetted process that you went through.

CLAUSEN: Well, it is, and thoughtful. They touched base with the leadership of the House and Senate. I think that started first. You can assume they didn't hit a buzzsaw then; then they were to move forward and touch base. President Carter was to call his counterparts in the G-7 countries, and Bill Miller was to flesh in around that.

The first indication I had was about maybe ten days after the meeting in the Oval Office when I had a call from the chief of staff of one of the G-7 countries whom I had known--and I had known the president, too--telling me in essence how pleased they were that I was being nominated and to be assured after they had thought about it long and hard, debated whether they should thumbs-down or blackball it, they decided that that they would cave in and okay it; just wanted me to know. So I knew the system was working.

WEBB: Did McNamara help you to, try to persuade you or think it out?

CLAUSEN: McNamara came in the summertime to my office in San Francisco and spent an hour with me, as I recall, late in the afternoon, so he knew my style because I get warm as the day goes on. I'm lousy before 10 o'clock in the morning, and I would only note for the record that it's only a few minutes after ten on this morning, June 8. He left some financials of the World Bank, showing its income and IDA *[International Development Association]*, loan volumes and all of that and to talk to me. This was before--I would say this was July, August, August maybe, I would say maybe it was July--and encouraged me to, you know, to consider going to the World Bank. And he made a pitch. And that's kind of when I started to think, "Well, this must be--there must be something to this. This is not just a"—you know, how these things hatch and start. It was my first experience. And he left some World Bank financials with me. We had a financial discussion.

LEWIS: Once you had been elected, how much of a turnover did you have from McNamara? Did he give you a lot of briefings?

CLAUSEN: McNamara?

LEWIS: Yes.

CLAUSEN: No, he didn't.

LEWIS: You got it all from the rest of the management team then?

CLAUSEN: Well, I came to--Bank of America treated me very well. Bank of America kept me--I did not stand for re-election on the board of directors of the Bank of America. The annual shareholders meeting was in April, although I did not—30th of April--but they kept me on the payroll until June 30. And the Bank of America gave me time for the transition.

So I came to Washington, I want to say, mid-May. The rules of the World Bank are that they do not permit anybody at the World Bank, no president of the World Bank, to accept honors or whatever. That's just against the rules. You were given the honor because of the World Bank and not because of your own self, is part of the explanation.

So in early May, after I was no longer the chief executive officer of Bank of America, my wife was asked to christen a ship. I was on the board of Chevron (then called Standard Oil of California), and it was the custom of Chevron there as you were building tankers, that they would name it after their directors, and Peggy was to smash the bottle. So we went to Japan. It was going to be finished in October. I said, "There's no way that it could be named for me after I'm the president of the World Bank."

So they said, "Well, do it in May. It won't be finished. We'll have two black boards." No, they didn't; it was floating but not finished. And we went to Japan and took our sons, which was part of the ceremony. It was a great week. And they got it done while I was a private citizen and before I became the president of the World Bank.

But then I--the Bank of America had an office on 18th and K, and so I parked in there. They had a couple of spare, spare offices. And then I would invite key members of the World Bank to have lunch with me and--or come and visit. And that was arranged with the secretary of the World Bank, Tim *[Timothy T.]* Thahane, I believe, and Martijn Paijmans, the personnel vice president. Both Martijn and Tim arranged who I should see. And I'd never met either one of them before. So there was a whole series where for about four or five weeks of every day I was meeting with somebody from the World Bank, doing a lot of reading and talking and breakfasting and lunches. The Metropolitan Club never had so much business from Tom Clausen during that month, before or after.

LEWIS: You must have thought a lot about the comparison between the Bank of America and the World Bank, moving from one to the other. Some things surely were familiar, but other things must have been very different.

CLAUSEN: Well, that's right. You know, it's like being the superintendent of a marshmallow manufacturing company and to being a foreman of, you know, a tractor company--entirely different. They're both manufacturing. They're both banks, although the World Bank is a fund and Bank of America--commercial banking and development banking are almost polarized. The difference is of horizons: you can tell the progress that you're making in a commercial bank and read it fairly instantaneously, quarter to quarter. You cannot tell progress or gauge success--or failure, for that matter--on a short term in the World Bank because in some of the aspects of the World Bank it takes a generation to see progress: in research, progress in education, in health, in infant mortality. Things of that nature, it takes quite a while. And so they're two different businesses entirely.

And it proves the point that I said earlier, that it is so much easier by factors to get things done in the private sector as compared to the government sector, and of course the World Bank is closer to government. It is not controlled by a single government, although there are some governments that think that they can control the World Bank--and without mentioning anything, I fought those battles because I thought the World Bank was not above government, although it was owned by governments, but it was the instrumentality of all governments for the betterment of the world. And it took more than just one view, one government's view; it had to be worked out collegially.

The collegial approach had always been my approach on a managerial style to begin with.

LEWIS: Did you find that, aside from the control of governments, the way the thing was organized internally, the relations, sort of the nature of the bureaucracy, if you accept the term “bureaucracy” . .

CLAUSEN: Yes, I do.

LEWIS: . . for the Bank [both speaking at once]

CLAUSEN: I know bureaucracy.

LEWIS: And both private and public sector bureaucracies, right?

CLAUSEN: All—you never--there's always bureaucracy. Some you like; some you don't like. Some you understand; some you don't understand. But there's always bureaucracy, even in families.

LEWIS: Sure. Right, right, right. So was that very different?

CLAUSEN: Oh, yes. Yeah. Very frustrating, very frustrating. The bureaucracy of the World Bank, between governments and dealing with executive directors which--executive directors are--it is not an affinity group in the sense of the word that directors of a corporation, publicly-held corporation, is an affinity group. And there are big demarcations, big differences, between competencies and global perceptions of executive directors. They're each individuals. They come from different backgrounds, different parts of the world, different understanding of their mission, as to what their mission is.

LEWIS: They're representatives more than corporate directors are, isn’t that right?

CLAUSEN: They represent shareholders, their shareholders. They've got to caucus with their shareholders. At that time there were 148 owners, 150 owners; there's more than that now. And when an issue was coming forward, there was always notice that such and such an issue would be discussed and decided upon beforehand. Then the role of the executive director was to caucus, to get the view of the countries that that executive director represented, which made it quite difficult on some of the key issues that we were talking about to canvas—I think one of the executive directors had 29 countries--and sometimes mail was delivered on camel, not by postal service, so it took quite a while to get an answer back.

I know when we were moving the reference point--because I thought the interest rates were just horrendous; they were going to be choking. So we devised a, with Moeen Qureshi, who was then the vice president for finance, senior vice president finance--Gene *[Eugene H.]* Rotberg was part of that operation--to put it in a pool, the cost of monies in a pool, which with the sharp rises and--it was sharp rises in those days that we were concerned about; it also could go the other way--that the borrowing country would not be hung up on those extremes . . .

LEWIS: Particularly currencies *[inaudible]*

CLAUSEN: Or the Bank could pick the currency. So we could hedge that, but the interest rates, to moderate the impact of interest rates on the borrowing countries, to put it in a pool and then see if the rate drops considerably, we backtracked it. And that naturally was quite a dramatic change by the World Bank, and it needed countries' approvals. To get 148 countries' approvals or consensus, you had to work through 21 executive directors to do it. So the process was very slow.

LEWIS: Did you do a lot of sort of one-on-one with EDs *[executive directors]*?

CLAUSEN: Oh, yes. You have to do that. Groups to discuss it, small groups at lunches, breakfasts, and then one-on-one, and discussing the issue, trying to make the sale and stand ready for questioning. It's not just—it's not all done by the World Bank president but by the senior staff.

LEWIS: You try to get most of these things sorted out before you actually went and brought it into . . .

CLAUSEN: That's right. It's the collegial process. There should not be surprises. I still believe in the private sector there should not be surprises for the board of directors. If you have something major beforehand, pick up the phone and talk to them so that they're not shocked, but also to get their views and inputs because as you shape the form that--the direction or the action that you want to take. You know, I strongly believe the quality of judgments are improved by quality of people that you consult with, providing they're not an attorney. [Laughter] I guess you would *[inaudible]* to me then.

LEWIS: Did you find things that pretty early on you wanted to change?

CLAUSEN: Well, yes. [Laughter]

At the first shareholders' meeting, governors meeting, annual meeting of the Bank and the Fund, September 1981, I suggested that we start MIGA *[Multilateral Investment Guarantee Agency]*. They had been trying to launch that for 20, 25 years, from the late '50s. And I honestly thought, John, that it would take me two years. And it didn't. It took five years or a bit more. I remember I was--but in September 1981 I suggested the time had come for a multilateral, multi-government insurance fund to provide insurance for, against expropriation, not against credit risk but provide for expropriation, acts of god, things of that nature.

I want to say there were only a handful of—several handfuls of countries, 20 or thereabouts--that had indigenous insuring entities against political risks. And not all countries were strong enough, if they had an indigenous entity that provided all that coverage, it would not be acceptable globally, so that there ought to be room for a multi-country-owned insuring entity.

We must say the word "insurance" because it started in the late '50s, I want to say, and there've been, I want to say, about three attempts to launch an OPIC *[Overseas Private Investment Corporation]* type of entity. They all thought of insurance until later on when I needed to get another general counsel. Heribert Golsong resigned, and then I made a search. And one of the reasons why I liked Ibrahim Shihata—who was finally invited, and he accepted--was that he was a very sharp lawyer, number two in his graduating class at Harvard, Harvard Law School, and he had experience with the Kuwait Fund and Abdlatif Al-Hamad. And Ibrahim had been instrumental in launching a guarantee apparatus for the Kuwait Fund and for the Arab world.

LEWIS: Abdlatif, by the way, is one of our advisory committee members.

CLAUSEN: Yeah, well, Abdlatif is a good friend of development, a good friend of the Bretton Woods institutions, and I think a world-class statesman, statesman-like person.

And so when Ibrahim came on board we started immediately talking. And he was interested in coming on board because he also had noted that I had, in my initial address to the Bank and the Fund annual meetings, had suggested that we ought to start an insurance agency, except that from his legal perspective "guarantee" is a better word than "insurance" and has more flexibilities. Don't ask me what they are, John, but Ibrahim can fill you in on that. So we moved to the Multilateral Investment Guarantee Agency, MIGA. That was one of the early things.

Another of the early things was that I observed that the World Bank on projects, let’s say if you take Country X with a 100 million dollar program, and let's say the World Bank would have five projects, five 20 million dollar projects in different sectors of the economy, so in essence we’d come and have a 20 million dollar conversation on agriculture, we'd have a 20 million dollar conversation in transportation, a 20 million dollar conversation in whatever. And I said, "Five different groups? So why can't we have a 100 million conversation and then kind of scoop in some extra stuff on the side when we're having that conversation? We’ll get more attention and we’ll get a bigger response if we’re at 100 million dollars—in theory--than with a series of 20 million dollar conversations." That's exactly the way I kind of explained it, my understanding of this.

And then, of course, we had structural adjustment that started the year before I came; Bob McNamara had started. And then we started sectoral adjustment, cleaning up a, say, an agriculture sector or a financial sector or a transportation sector. But even without a sectoral adjustment lending--adjustment lending are things that you can't can’t see, touch or feel; therefore, the World Bank is taking a chance in being perceived more like the Fund because you can't see anything the Fund does but in the World Bank traditionally you can see an irrigation project, you can see highway improvements, you can see a port rehabilitation, you can see electrical dams, projects, energy, whatever. But the World Bank then was moving, and I encouraged the World Bank to move into adjustment lending because I strongly believe that if you have the policy, the economic policy framework of the country right, a 10 million dollar project or whatever, it's going to have a bigger response, a bigger harvest to give to a country if the policies are right than if they're not right. If you just do a 10 million dollar project in a country where the economic policies are helter-skelter, all screwed up, incestuous—that you're going to get a far better harvest from that project if the policy framework was in the right juxtaposition.

But even without using the words "adjustment lending" you have a bigger impact on a country. And I was interested in population--always have been from way back when General *[William H., Jr.]* Draper called on me years ago as a banker to get more money from what I call a "conspiracy" of the commercial banks we have in California, the big banks. Eight, billion dollar banks had a conspiracy on how to withstand pressure for philanthropy, rather than have the philanthropists gang up on one-off, pick on one bank and then go to the next: "Well, this first bank has given this, but you ought to give more or offset it." The California banks--I guess this is all right if it gets in your book--really had a defensive mechanism.

LEWIS: Collusion, they call that. Collusion.

CLAUSEN: And so when I realized what was going on, when I became the CEO of Bank of America in 1970, I said, "This is really the pits."

Anyway, General Draper called on me and asked for money for UNFPA *[United Nations Fund for Population Activities]*, and we were giving very little at the bank. He said, “The next time your group of banks”--called the California Clearinghouse, California Bankers' Clearinghouse--“meets, put in a plug for more money because it’s terribly important.” He spent a half hour with me on population growth. And I had also--I didn't need to know; I knew. So the Clearinghouse association increased--it doubled its grants. And I got a nice letter from General Draper, Bill Draper, the Fund *[inaudible]*, "Thank you so much for your increased contributions to population. It will be a better world because of your monies and monies from all over the world against this *[inaudible]*" Signed, "Sincerely yours, General Draper." Then a P.S.: "P.S. I'm compelled to remind you, Mr. Clausen, that 100 percent of small is still very tiny." [Laughter] Which it is. Which it is.

And that happened about 1970, '71, and ever since then—you know, and being an admirer of General Draper and having climbed up on the bank, kind of competing with Draper, Gaither and Anderson, which is a venture capital organization in the State of California, and in 1958 there was passed a Small Business Investment Company Act that the banks could also do venture capital for small businesses, take equity, take equities back, convertible debentures, et cetera, as well as make loans to small business as defined. And I was active in that at Bank of America and was competing with Draper, Gaither and Anderson. I’d never met General Draper, but I knew Draper, Gaither and Anderson, and that piqued my interest; they were competing. We won some; we lost some to Draper, Gaither and Anderson. They were very active.

But when I met the general, he was a very impressive man. And ever since then I was hooked on that population needed to stemmed. I’m very anxious that population be covered well in Rio. I'm a member of the national commission on the environment and on the population crisis committee which was also started by General Draper. And we've all been anxious that population be involved by Maurice Strong in Brazil. That's not the easiest subject to talk internationally.

LEWIS: Did you--you pushed population, then, in the Bank?

CLAUSEN: Well, 1984 the WDR *[World Development Report]* theme was the impact on development of population growth. There's a neutral title if you ever heard it. I remember I called on Pope John Paul in the spring of '84 right after, or right around, I think, Bellagio for—what's that meeting? The Tidewater group?

LEWIS: Tidewater meeting.

CLAUSEN: Tidewater meeting. And I called on Pope John Paul in the Vatican and then went from there to Nairobi in July to give a 45 minute lecture on the impact on development of population growth in Kenya . .

LEWIS: *[inaudible]* lecture.

CLAUSEN: . . because, you know, 3.9, they admitted to 3.9 percent growth. It was probably 4.1, 4.2. And the number two guy—not--President *[Daniel Arap]* Moi had an interest in it, but it was the vice president—I've forgotten his name.

KAPUR: *[George K.]* Saitoti?

CLAUSEN: No, that doesn't ring a bell at the moment.

But he chaired a population conference in Nairobi, and I gave a lecture, a long lecture, but it was very, very important.

I will always remember that part of my life as having met the Pope—I'd met him before, but this time I'd had a discussion with him on population. I don't want to veer off on little anecdotes, but boy did Pope John Paul have blue eyes! Paul Newman had blue eyes, but not as blue as--he's a marvelous man. And it also gave me an opportunity to complain a little bit about the bishops calling in Washington, D.C., were always wanting to discuss nuclear and not wanting to discuss the poor. And IDA needed help. IDA really needed help.

And then afterwards Cardinal--who was the, from Washington, D.C., here, and he was the liaison between the Vatican and the Catholic Church in the United States, Cardinal--I forget his name. But he had asked--Benjenk was with me, Munir Benjenk--and he had asked Benjenk and me to stop by for a drink afterwards. I thought that was kind of interesting, being a Presbyterian, having listened with my two sons, small sons at church years and years ago that I was a sinner for drinking. I must say I didn't stop going to church, the Presbyterian Church after that, but I was happy to have been transferred. That's not the Presbyterian gospel. But I've always, you know--we've always taken a--we have wine with our meals. And for the Catholic Cardinals, two of them--Bishop O'Conner was there and also the Cardinal who died of cancer in New York.

LEWIS: Cook? Cook? Is that right?

WEBB: No, he was from Chicago.

LEWIS: Oh, I'm sorry.

CLAUSEN: The Cardinal . .

WEBB: *[Francis J.]* Spellman?

CLAUSEN: . . who got cancer, and he died maybe 90 days after. It gave Munir and me a chance to make the case for poverty to the Catholic Church. The Catholic Church was really—not stop talking about nuclear, but throw in the fact that the U.S., when they were calling in Washington, to make the case for financial support for IDA which was, this was the instrumentality to help the poorest people in the world.

Cardinal Cook, yeah, Cardinal Cook, Terence Cook. Three weeks after that meeting in the Vatican, Terence Cook wrote a letter to President Reagan making that point exactly. The letter was published. Three weeks after that Cardinal Cook was--died--terminal cancer, killed by it *[inaudible]*

I remember the lecture I gave in Nairobi--my father was an editor and publisher. My father was born in Norway. He came to the United States when he was sixteen years old. He subsequently became an editor and publisher of a weekly newspaper in my hometown where I was born, Hamilton, Illinois. And my father was, in '84, was 88 years old. And I always sent copies of my speeches to my father. My father one time was president of the editorial association, newspaper editorial association of the State of Illinois, for a number of years. He was a well-known editorial writer himself, although he owned, had a weekly newspaper. He redid the speech. My father didn't know diddly-damn about demographics or anything like that, but he knew how to present an idea, and he had recast it. After I gave that speech in July--and I think it was also after, I think, the meeting--my father died in August of '84 at age 88, and I found that he had redone my speech. It was published in *[inaudible]* and then he had redone it in his own hand at age 88, which I thought was pretty good.

But population is something that we tried to move in the World Bank. It's hard—and there's a misconception of the World Bank: the World Bank, you know, can do anything it wants, which it can't. The World Bank is there to help, but if a country does not want to borrow money for population, then it doesn't. We can try to influence, and the World Bank does have a lot of leverage in influencing, but it cannot deliver the programs that it would like to deliver in all cases or even, in some cases, not very many cases.

I've tried a good many places to have a population program put in place. There's one just south of our border here in Mexico. But that year, in 1984, Carlos *[Miguel]* de la Madrid said, "It would be great. I can see the headline now: 'World Population--1984 World Population Conference in Mexico City Big Success.'" It wasn't. The U.S. position was awkward, much like the environmental position is awkward this year. I don't really understand why, but it was. The World Bank was out of step with our largest shareholder.

LEWIS: I was going to ask whether you had much pressure from the U.S.

CLAUSEN: I had, yeah. Oh, that's—I'm going to say, no, not pressure from the United States on the *WDR.* Nancy Birdsall, that great lady, was the orchestrator. I can't say that I felt any pressure from the United States, in fact, the text, the flow or theme of the *WDR*, but we knew we were out of step very definitely . .

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

CLAUSEN: . . and I was promised. I was giving a speech at the . . . called and said did I know what was happening, trying to exert pressure, the administration was going on a tangent, on a frolic on its own. And I didn't. So I came back, then I touched base with the State Department, Treasury--always with Treasury, always with Treasury, and the State Department, that was the, State Department was George Shultz at that time--as to, you know, what impact was this going to have. This was a time when we were, had the theme of the impact of development on population growth for *WDR*. But I can't say I felt any heat on me after the fact. I knew we were out of whack, and I'm always uncomfortable when I'm out of step with major shareholders. I've been out of step with major shareholders, but in this case was singular: I think the U.S. was only one we were out of step with.

LEWIS: It was pretty lonely at that conference, I guess.

You talked about when you were putting together the—do you have some—I saw you looking at your watch . . .

CLAUSEN: No. For the timing, I've got to leave at ten minutes of two.

LEWIS: Ten minutes of two, fine. We're going to have lunch at the--whenever we want it, I guess. At what time? Do we have a date set?

WEBB: I mean, we could talk forever. It's just marvelous to be able to talk. [brief discussion of when to have lunch]

LEWIS: Fine. You were talking about the time you were putting together five 20 million dollar projects into a 100 million dollar conversation but not SAL *[structural adjustment loan]*, sort of batching projects. Did you--that is reminiscent, actually, of something that Gerry *[Gerald M.]* Alter, when he was head of the Latin American, I guess they called it the Western Hemisphere branch back in the '60s, did quite a bit of. Did you get into that?

CLAUSEN: Gerry Alter?

LEWIS: Yeah, Alter—no, I mean he was gone by the time you were here.

CLAUSEN: I never heard the name.

LEWIS: Never heard the name? He's sort of famous for that concept of a program of projects as a way of getting policy discussion broadened beyond the boundaries of any one project. It sounds very much like what you were saying, when you got here and . . .

CLAUSEN: Very clearly, intellectually it has a bigger impact, bigger conversation. I'd have to take a senior officer to have that macro conversation, but even if you include things like population, include things like education, include things like environment, three things which you can't have immediate results and where a head of government or a head of state would say, "Well, I want to stay in office. I want to have my people feel the results like now, like the day before yesterday, let alone in the next generation because I may not be around, I'll be booted off. I've got to do some things to show my popularity and to be re-elected or to keep in good stead." We had a better shot at that, some of those important things, some of the softer things, harder to sell, because the results and the harvests could not be read immediately. If you packaged your, whatever amount you might set up, 500 million dollar program, you can get a whole lot bigger impact with 500 million than you could with a series of independent discussions.

LEWIS: But did you experiment along those lines? Did you have . .

CLAUSEN: Yes. *[inaudible]* What I had set up was a--I am a product of the private sector and ran for 12 years as the CEO of a large global bank and had a lot of, a big staff, even--you know, before computers there was much--you can do a hell of a lot more now with a lot smaller staff because so much of this we now put on computer systems. Well, we had about 85,000 employees when I left the Bank of America in 1981. And I had what I called a senior management council where once a month I would gather together, depending, including once every quarter, all of the key players would be in one room together, 25 of the most senior officers, global, around the world, and everyone would talk. Everyone would have six minutes or seven minutes to tell what he or she was doing in his bailiwick. The rest of us would listen, so we'd have a better understanding, once a quarter, of the globality, the global significance of the whole entity, the institution.

I introduced the same thing at the World Bank where I sensed invisible equator lines, tough to break through, and--or to step over the line--a smaller group in which we would meet and talk about various countries, regions, programs, what's happening in agriculture, what's happening in adjustment lending, success, talk about issues, talk about Congress, talk about--whatever.

LEWIS: This was your management committee, was it?

CLAUSEN: No, there was a management committee, but this was a council. The management committee really managed the issues, but the council periodically would get together and talk about the world *[inaudible]* the participants leaving that would have a better understanding of the totality of what the World Bank was doing.

LEWIS: And who would be involved in that council? All the vice presidents?

CLAUSEN: Senior, the senior officers, directors, a group of, I want to say, about 20 people. And it was that group of, say, of 20, 22, 23 that I set up—we would to go off on a retreat. We'd go to the Aspen of the east . . .

LEWIS: Airlie House?

WEBB: Wye?

CLAUSEN: Wye, Wye Plantation, for the five years I was here. We met five years. We went five years to the Wye Plantation, get off campus, so to speak, get out of our uniform, and to talk about issues. We'd have a--sometimes we would have an outside facilitator. Larry *[Lawrence]* Eagleberger signed up one year to come but he got ill. He was very ill, couldn't make it. But I had Warren Bennis, who is the number two guy at the business bureau at USC *[University of Southern California]*, a well-known facilitator, and others to talk about issues. We want to change direction. What are we doing? What are the issues coming forward? How are we going to move these issues going forward? And get a perspective.

So I believe that--I'm an organization person, and therefore that the individual officers need to interchange around the institution, called "institution-building." I didn't like it that we'd get seconded people from Japan or seconded people from Germany--more from Japan than Germany. But I remember I cut the cord on both of those countries, one successfully, one not successfully--at least that time because I don't think the Japanese really understood what we were doing--but have the loyalty be only to the World Bank, nobody having their income supplemented by their former employers or their former governments while they're in the World Bank. The World Bank should be it, only and solely determining the action of any officer--particularly senior officers--of the World Bank. And this is one system to have it; we should take responsibility. If we, if the World Bank got bad press for something that happened in India, the country manager in India shouldn't be the only one that dies; we all ought to die because it's our institution or whatever, for example. But to pull them together--and I feel that's very important. And I even feel stronger now than I did then, having gone back to the World Bank--I mean to Bank of America--and to fight a takeover attempt where you need a lot of people to be concerned with what's happening in the institution, even though it's not their job, it's not directly their job, but indirectly it impacts everything.

LEWIS: Did you find that in the staff here, professional staff, there's a considerable identification with the institution?

CLAUSEN: Yes.

LEWIS: There's quite a lot of loyalty to it?

CLAUSEN: Oh, yes. Oh, yes. People don't come to the World Bank and work for money. People come to the World Bank because of--Rotberg said it best. He said that he could make a lot of money—and has since he left--but he worked because of a sense of pride, a sense that you're making a contribution, even one individual can make a change in the world. It's the greatest group of professionals that I've ever worked with.

LEWIS: You spoke of organization. What did you make of the reorganization under your successor?

CLAUSEN: All I know is what I read in the paper, I must say.

LEWIS: It was quite a substantial reorganization, pretty traumatic. But you didn't sense--there was a commission there, wasn’t there, a task force, that worked on organization issues, wasn't there?

KAPUR: In ’84, I guess it seems that--there was a sense, even when you were there, that information was not flowing and there were too many hierarchies. I guess ’84 there was the *[Stephen M.]* Denning report which looked into these—do you recall that?

CLAUSEN: Yes, yes, I do. I remember in, it was in '84, maybe '85, when we had a series of discussions with the Executive Directors as whether we were—what, you know, what are we: mineral, vegetable, or animal? And what's our mission? How should we go about it? The world is changing. It was a bit agonizing, but I must say it kind of ended up in the air. Sometimes there might be--like planning, it's the process that one goes through is as important as to what that you end up with because you know your business a lot better as a result of planning. And I like—and I also take the view of planning as a process with the caveat: never fall in love with the end product; never believe that as fact but as a goal.

But an organization needs to be—it is not unreasonable to be critical of the organization of the World Bank, not unreasonable at all. For anyone coming in from the outside to try to understand the organization, that is very, very frustrating and agonizing. You lose a little sleep on that, maybe drop a tear or two. And then when you start to change it, change in a deep-rooted bureaucracy is very difficult--not impossible, but very difficult. And the bureaucracy of the World Bank is deep-rooted. It’s been around the course a good many times as this evolved.

John, I don't know how candid to be.

LEWIS: Oh, please do. We want you to be as candid as you feel--also, we don't plan to run any expose of anything. It helps us when people are candid so that we can understand better and be able to--we would not want you to say anything that you’d be unhappy to see in print, but no, I wish you would be candid. I wish you would be candid some about people. We haven't asked you directly yet, but plainly senior personnel, your colleagues, Ernie *[Ernest Stern]*—I would be--one thing that happened on your watch early on, I think, in terms of reorganization, was to reorganize and reduce the turf of the vice president for research and economics before Anne *[Kreuger]* came in.

CLAUSEN: With Hollis *[Chenery]*, yeah.

LEWIS: With Hollis, yes. And we're interested very much in that shift from Hollis to Anne and the selection of Anne. We know a little bit about that--we think we know--that Al *[Albert]* Fishlow was a candidate, she was a candidate, and maybe one or two others. And that's quite illuminating.

CLAUSEN: We had a short list of five, and we asked the Nobel Prize winner . .

LEWIS: Arthur Lewis.

CLAUSEN: . . Arthur Lewis to chair a committee, come up with the world's best candidates, those that ought to be considered. As I recall there was a list of ten. We reduced it to five, and Anne was on the list of five. There were four others. Don't ask me to remember who all those were.

KAPUR: Al Fishlow, Michael Bruno?

CLAUSEN: *[Rodrigo]* Botero.

KAPUR: Botero.

CLAUSEN: You remember Botero.

LEWIS: Maybe. I never can get straight whether it was T. N. Srinivasan was there because Jagdish *[Bhagwati]* pushed him, or Jagdish was there because T. N. pushed him. One of the two, anyway. Okay.

CLAUSEN: Okay. Well, you’re--I'm sure the Bank has the list in the records.

KAPUR: I have it in Hollis’s files, too.

CLAUSEN: Yeah, and Hollis was part and parcel of the process that we set up to select his successor. Hollis is not well.

LEWIS: No, I know. He's been--someone told me that—no, I guess somebody saw him quite recently--he still was not well at all.

CLAUSEN: Well, we, Peg *[Mary Margaret Clausen]* and I, have been seeing Hollis and Mary maybe once a year when we go to Harvard. We're members of the Harvard Business Associates, and this last time he was not well enough for us to have a meal with them, so it's been a year, fifteen, sixteen months since last we've seen them. Peggy and Mary have gotten to be close. Hollis, I’ve a lot of respect for Hollis, a good development . . .

I have a lot of respect for Anne Krueger, too. Anne was a good selection. I tried to select someone that had the potential to be a Nobel laureate. That was my criterion, someone that could, that had that potential. You can't guarantee that process. It takes a lot of luck, a lot of things got to be in compared to what, but that was, in my talking to Sir Arthur Lewis that--so that he would understand it, and I asked him to keep that in mind for criteria for the people that he would suggest for our consideration for candidates for that job. And he suggested Anne Krueger.

LEWIS: Tell me a little bit about Anne's role. She has, at least as viewed by economists, been sort of the front spokesman for a shift of degree in the Bank that you're certainly aware of, the shift toward more market orientation. It's sometimes called neo-orthodoxy, kind of the neoclassical view of the world, which was a fairly robust view, I must say. It still is, of course. But Anne was very articulate and she had the role, and the real question for historians is to what extent was she leading the thinking of the Bank or was she articulating a shift of emphasis that was much more widespread: the president, the senior vice president, whatnot. Was she leading your thinking?

CLAUSEN: Well, of course, she was leading, but also we had what I would call a collegial process for the direction that we wanted to go. I had set up the managing committee, not to defer decisions or defer judgments or to diffuse quality but to improve the quality of judgments. That's the process for which I was born and raised in Bank of America, as a managing committee. It meets every Monday morning for two hours, three hours, five hours, eight hours or whatever the issues are. When you've got a big merger, that merger just a few weeks ago, it needs to go over a lot of issues. It does not get into the micro; it gets into the macro. It's the general thrust.

Going back to the bureaucracy in the World Bank, you can understand and you can work in the bureaucracy of the World Bank if you'd built it. And Bob McNamara had been here 13 years, had built the bureaucracy. The annual lending program, I want to say, when Bob became CEO, president, was about a billion a year. When he left 13 years later, it was 8 and a half billion or whatever. Facts are facts. It had grown, and he had been responsible. It was his vision and had put all the pieces together. And he knew where all the skeletons were buried, and he could operate from that. And when he left, he took the system with him: he was the system.

In the managing committee we referred to this a good many times. And Ernie and Martijn--Ernie Stern and Martijn Paijmans--would say, "You know, when Tom first came, he said, 'Well, we want to shift the direction a bit. We want to go eight degrees more to the left than what we've been doing.'"

So I said, "All right. We're going to shift eight degrees to the left. Somebody turn the steering wheel."

"Well, where is the steering wheel?" There wasn't any! It would take us three or four weeks to build a steering wheel.

So now we turned it eight degrees where we wanted it to go, and nothing happened. They said, "Well, we don't have a rudder."

So we in essence—and that's not to be funny, but to explain--we built the system. And hopefully the next guy that comes around, there is going to be a system left. I don't mean to be critical of Bob, but Bob was the system, and in organizations the organizational structure should be stronger than, you know, the life or death of an individual. It should be there. Somebody else ought to be able to step in and still get it to operate. I don't mean that as a criticism of McNamara as president.

LEWIS: Understand.

CLAUSEN: *[inaudible]* McNamara will go down in history. McNamara made the Bank what it is, did a marvelous job and should be congratulated from that standpoint.

That was an aside where--of course, the question that you were asking on . . .

LEWIS: About Anne, really, and whether she was leading. It was a very good answer, I must say.

CLAUSEN: Then we got a managing committee. It's got to have personnel. It's got to have finance, got to have operations. You've got to have external communications, public relations. Benjenk has got to know what's going on. You've got to have economic thrust, the chief economist who in many ways is the principal articulator of theory, development theory and development practice, along with Ernie Stern as head of operations. The secretary of the Bank and the top legal guy. So much of what the—Heribert Golsong and subsequently Shihata. And that was the team, representative of the entire organization. The bulk of the organization is operational, but only one from operations was on the so-called managing committee. That got a little heat, but also it's the same way in the private sector. You had a kind of senior management council, and more of Ernie's guys filled up the rest of the senior management council. So . . .

LEWIS: This is the one that you said was 20, 25 people.

CLAUSEN: We'd have an annual retreat and discuss issues. And also you get a feeling of togetherness and of fellowship which I think is an important for an organization.

WEBB: This started something that was to be instrumental . . .

CLAUSEN: The managing committee, yeah. The World Bank's had difficulty in taking to the managing committee. And the internal bureaucracy was, I guess, in turmoil, which I won't go through, but there was a lot happening. I used it as part of an educational process for each of the key members. I think there were eight or nine on the managing committee, and it met--I don't recall whether we started meeting monthly or whether we started meeting every other week. There were enough issues always, constantly there that as we were, particularly as we were evolving into the kind of adjustment lending, sectoral adjustment lending, in contrast with structural adjustment lending. Structural adjustment lending is massive. In sectoral you pick a piece of the structure and do that from A to Z. And as we were hammering out some of those issues in discussions in the managing committee, but you wouldn't meet if there was nothing, if there were no issues to discuss, either. I don't believe in having a meeting just for the hell of it. Nor do I favor meetings to fill the time that's allocated. If it's over in 15 minutes, let's get on.

But I am in favor of having more of the top people knowing the totality of the organization, what's going on, and that's a good way to do it, to have periodic getting together for a senior management council. They met ten or twelve times a year. In addition they would take a retreat for two and a half, three days at Wye.

KAPUR: In reading through the minutes of the management committee, and I think you met once every two weeks, one senses . . .

CLAUSEN: Every two weeks?

KAPUR: Right, and then it became weekly almost, but again as you said it depended.

One senses at times a certain tension within some of the members. Now, was that a sort of—like McNamara used it a bit in the president's council; he loved the words "creative tension"--was that your intention, or was it really not there?

CLAUSEN: No, it was not my intention to create tension. It was my intention to remove the tension, creative of other kinds of tension, to remove the tension among the senior officers and to feel a part and parcel, a feeling of brotherhood, to feel a responsibility for this totality and not just for a segment. And I sensed there was too much segment-thinking when I first came.

I think I set up the managing committee within the first month, maybe six weeks at the most, after I was there. We had—we started to meet, and I was thinking of functions. "Should we have Thahane on the managing committee or not?" And I decided--and I was talking with Ernie and Moeen, principally (they were also the two senior vice presidents) and with Martijn, who was the key personnel guy--as to who we should invite, whether we should have one and who should be on it? And how representative? Yes, you've got to have Hollis (before Anne). You had to have that spot as a member of the management team. You've got to have the legal counsel on it; almost everything you did in different parts of the world involved some legal aspects. Laws are different in every country *[inaudible]*

LEWIS: The tension you're talking was partly between Ernie and Moeen, is that right?

KAPUR: Right. One senses that continued throughout the '80s.

CLAUSEN: Well, there's no denying there was tension between Moeen and Ernie. The tension was not present at the managing committee because they had a Dutch uncle who talked to them privately and said, "You know, in the managing committee we're managing the organization and not turf protection. You're not protecting turf in the managing committee; we're doing what's best for the World Bank. It's the World Bank that counts in the managing committee."

LEWIS: You know, I think I can testify a little bit about this because I was chairing that task force on concessional flows from '82 to '85. And your--actually I was working with some people who were staff for that thing, and we actually saw quite a lot of, certainly, them. And Anne monitored this very closely and had her agents sort of trying to keep this on track. And one sensed there was really almost two parties. You could exaggerate this, but there was the--Anne was out front as a--and I suppose I would say she was out front speaking in part for Ernie--the party that believed that policy adjustment was the most important thing. If you got the policies right, then that really was the name of the game and that almost you used transfers just as a device for getting a hearing, getting, moving policy. You still had the other party which believed that resource transfers were very important. And I guess that would be Moeen, but I didn't really interact with him much, but it was particularly Percy Mistry, who was his secret weapon, kind of. And Mistry and *[Shahid J.]* Burki were in this one group, and the others--and it was a really--there was a lot of tension between those two camps.

CLAUSEN: A lot of tension. And there were other camps as well. There was also the Benjenk camp . .

LEWIS: Oh, yes, yes, yes.

CLAUSEN: . . that had a maybe a third thrust. Munir had his own, well, menu.

LEWIS: I know, yeah.

CLAUSEN: I got along with them all, which was my job. Anne had trouble adjusting when she first came because it was unlike any bureaucracy that she had experienced in academia, the University of Minnesota or before that the University of Wisconsin. But Anne kept her feet on the ground. I think Anne made a tremendous contribution to the World Bank, although she felt a little out of place, sort of a little frustrated.

LEWIS: She built quite a group of like-minded people around her.

CLAUSEN: Yes, she did. She did.

I was going to say Ernie--Ernie was my confidant. Ernie knew everything I was thinking about. And Ernie I trusted; Ernie I do trust. Ernie is one of the smartest people I've ever met. He's a bit of a rascal to work for, but I didn't have to work for him: I worked with him. But I admire Ernie Stern, and I think Ernie is brilliant. Ernie is a very good manager, I want to say, one of the best managers in the Bank from my perspective. Not everybody liked him because—I mean, the last person that everybody liked has not yet been born.

Moeen and Ernie did have, I guess, some basic chemistry differences and philosophical differences, as well--part of their origin, part of their background, part of their country background. But Moeen is a World Bank person in the marrow of his bones in a different way than Ernie, and Moeen was not the manager either of people or of tasks or functions that Ernie was. Both are great international civil servants *[inaudible]*. They had a--even though there was tension between the two, they would pal around with each other, you know, after hours or on weekends or--but still they didn't tear the place apart. They worked together. They worked very well together as members of a team.

KAPUR: Ernie's feeling for, I guess--I don't know if it was Rotberg's idea when in 1983 the whole thing of the "Bank's bank" came up. And Rotberg, I guess, won over Moeen, whereas Ernie didn't think it was too good an idea. I think that that was the *[inaudible]*. How did that-- how did you see that?

CLAUSEN: Well, this was how to get a leverage, and I don't recall that Ernie was fighting against the idea. Ernie maybe was not its strongest supporter. And I would say--my recollection is that he still supported the idea, that Rotberg really liked the idea--let's put it that way--while in contrast Ernie liked the idea, did not resist the idea.

LEWIS: I always have to be reminded what the heck that means, the "Bank's bank."

CLAUSEN: Well, the Bank's bank was the idea—if you're going to create, if we'd never had a World Bank and today we were going to start one, we'd start it with a little higher leverage than one-to-one. So what if IBRD were to have a subsidiary and were to separately capitalize it, using its own monies, and to have that be a special institution, like on energy, and were to have, say, a ratio of, say, five to one, then we'd get leverage out of what's in IBRD through a subsidiary which is at five to one; whereas, in contrast with the ideas of IBRD and the sister to IBRD, you got the commercial bank—call it Bank of America, just for the hell of it--and you get a leverage of twenty to one, or a little less than twenty to one because our capitalization is pretty high. Anyway, commercial banks with other activities may get a much higher leverage. And clearly you cannot have IBRD making loans to India, to China--IBRD has both loans to those two countries--on a leverage of twenty to one, but you could make the argument that instead of one to one, you could have two to one. And that was the idea of the Bank's bank: the Bank would create a bank which would have leverage, and that bank would have a special purpose.

Back in those early days, one of the special purposes we were talking about on energy, and the energy crisis kind of came and went. The World Bank missed that point back in 1980, '81 when they were kind of predicting that all the money was going to tilt into, say, the Arab nations, the oil producers, and they would have, get all the money, and you need to have something to counteract not that, but to spread that money, get some leverage. And there was also—there was going to be a shortfall of energy, and you cannot have development without increasing your consumption of energy, which is true. Therefore, the energy short countries would have to borrow, and maybe to have a special institution with the idea that would provide loans for energy projects in countries that have a shortfall of energy and do it on a higher level. But anyway, that was Rotberg's idea.

Rotberg was a visionary in a good many ways. Rotberg also saw the idea that there was a time back in the '80s when developing countries ought to start buying back their debt at a discount--which is an idea that also doesn't fly well when you're still making loans and, of course, it's anathema to any bank to have debt forgiveness. I'm sure you're going to be covering the *[James A. III]* Brady initiative . .

LEWIS: Oh, yeah.

CLAUSEN: . . and the *[Nicholas F.]* Baker initiative . .

LEWIS: Yeah.

CLAUSEN: . . both of which--you know, the Brady initiative, I think, is complementary to the Baker initiative.

LEWIS: In fact, it would be great if you would sort of take the debt story now and trace it out, you know, from the time you arrived and how did you perceive it, '81 to Mexico and--there's a lot of chatter, as you well know, that the Bank was slow in sort of getting into the debt issue. And I'm not sure that's right, but at any rate I think that your perspective on how that whole thing evolved, the role of *[Jacques]* de Larosiere and *[Paul]* Volcker and, you know, that that would be very useful.

CLAUSEN: Well, where to begin? Jacques and Paul—I would say that the front-burner dealings with the debt situation, really they were best discussed around Mexico. And a good many of those discussions were over in Paul's office, Volcker's office, at the Fed. And I must say Mexico owes Volcker a tremendous debt of gratitude, in my view. Volcker, the central bank and the Federal Reserve Board were taking a central role.

I can't say enough about Jacques, either, because Jacques has got a lot of criticism for sort of—the charge was that the Fund had loosened its criteria a bit in extending backup or standby for Mexico. And I've forgotten the number two guy--the number three guy, the top operational guy in the Fund, Australian?

KAPUR: David Finch?

CLAUSEN: David. David left shortly after the Mexico thing was put to bed, and I think--from what I've read and what I've heard, at least--I have the impression that he felt that the Fund had caved a bit on its criteria in supporting Mexico.

KAPUR: He left on Egypt.

CLAUSEN: On Egypt?

KAPUR: At least he says so.

CLAUSEN: Well, I was not very complimentary . . .

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

CLAUSEN: . . our next meeting was, we wanted to discuss Morocco, we wanted to discuss Argentina--three or four countries--and this would be Jacques and David, number two guy . .

LEWIS: *[Richard D.]* Erb?

CLAUSEN: Erb, Dick Erb, and it would be myself, Moeen, and Ernie that would get together, the six of us, for lunch. And we'd have a two hour lunch around issues that were pre-chosen.

Jacques would say, "Well, I want to talk about this."

We would say, "We would want to talk about these countries or issues."

And one of the discussions, a good many of the discussions, were on the pace of putting into place policies that the Fund wanted. We were the softies from the World Bank. I can remember the discussion of, well, about, "Why do you insist that they've got to do this by a week from next Monday? How about three weeks from next

Monday?" Kind of phasing them in more gently rather than draconianly was to overstate, make the point.

And we talked about Mexico because Mexico had, as you say, serious problems. And David was, I'd say, you know, the hard-liner. And so when Mexico did get put into place and Jacques was getting some heat in the media for having softened his view of the Bank, I called him and said, "Jacques, you'll go down in history." You know, "Congratulations." Because if ever was a country that was time—and the Bank was the one that had the money and was doing the deals. The Fund didn't do the deals. And increasing our lending to Mexico by transfer of funds helped them through all this. I thought the Bank was doing a pretty good job.

I also participated, when I left to go back to Bank of America, in the restructuring of the Mexican debt. This was under *[Carlos]* Salinas and *[Pedro C.]* Aspe rather than under *[Miguel]* de la Madrid and *[inaudible] [Jesus]* Silva Herzog.

And I liked the Brady initiative right out because I also participated on March 10, 1987--March 10 of '88? When was the Brady initiative?

LEWIS: '89.

CLAUSEN: Was it '89?

LEWIS: Yeah, it was in the first months of the new administration. It was at Brookings--right here. [both speaking at once]

CLAUSEN: No, this was over in the State Department, when Brady gave his debt forgiveness . . .

LEWIS: I thought that was done in this room down here, but I must be wrong about that, but he was talking to the Bretton Woods—what do they call it?--Bretton Woods Society, Bretton Woods Association, or something like that, I think?

CLAUSEN: Bretton Woods, yes. And this was over--no, this was over, one morning over in the State Department, and it was March whatever, March, I want to say March '87. Maybe it was March '88.

LEWIS: He wasn't the Secretary until '89, right?

CLAUSEN: Okay, so it was '89, March '89. That recently? He became Secretary of State, okay. He was brand new.

LEWIS: Secretary of the Treasury.

CLAUSEN: That's right, Secretary of the Treasury, yeah. Okay. I'm off one year.

The Baker initiative came in October '85 in Seoul, Korea--and I know you won't quote me on this--in typical U.S. Treasury fashion, the only navel they contemplated was their own. And they could have come up with a better package had they--and I realize that you won't have an announcement effect, therefore surprise. And it wasn't until after we had arrived at Seoul, Korea, in ’85 that, you know, 48 hours before the Secretary addressed the governors that the staff of the Treasury was working behind the scenes with the World Bank on picking the so-called “15 countries,” which, when it got back to our Executive Board, Executive Directors that represented countries that weren't among the 15 wondered what's going to happen to them. They weren't going to get any money. There was a lot of confusion and dust--that maybe said something about the quality of Executive Directors and hardly being an affinity group, or maybe it said that the miscommunication, that it was too fuzzy, not clearly articulated, because I thought that some of the discussion in the first Board meeting when we came back was all about the so-called Baker—we called it the “Baker plan.” That was part of getting it off kilter. It's not a plan; it's an initiative; it’s an idea. The countries that are doing the most to put in place economic reforms ought to be the countries that get special attention from the World Bank. And even though you weren't one of the 15 countries and still want to do it, you're going to get special attention. That's common sense. But so many of our Executive Directors didn't--they got the whole wrong idea.

And the Baker initiative has made a strong impact, and that was a good idea. And you picked the countries, the 15 countries that are the most heavily indebted and the ones that needed the most help and they ought to get the most help from, not only from the Bretton Woods institutions but also from the commercial banks along with them. You can't quarrel too much with that idea. It was proper.

The Brady initiative came along and said there are some of those countries that have got so much debt that the only way they're going to survive is through a bankruptcy, similar to a bankruptcy court, that is where there is debt forgiveness, restructuring, reorganization, a new plan, and then you start anew, afresh, and forget the totality of what you owed. You're going to owe something different, in a different form, something less.

And I was the one at Bretton (and therefore on March 10, 1989) that--this being a program that morning, Bill *[L. William]* Seidman, *[Yusuke]* Kashiwagi, and myself--that I said that it's not only the critical mass of debt forgiveness from an obligor, from a debtor country, reducing interest rates will also help. And I was pushing on reduction of not so much of principal, which I could see might hurt commercial banks, that therefore that would impact on their net worths and the--forgive the debt, the chargeoff, increased chargeoff, might hurt their capital, the capitalization of the international commercial banks around the world, but not so if you took a haircut on interest rates. And if you're the debtor country, you could kind of care less because money is fungible, and you reduce the burden, the debt servicing burden.

And you will notice that Bank of America has not forgiven any debt because it has forgiven interest rates *[inaudible]* the package of debt that lowered the interest rates, six and a quarter percent on Mexico, six and three-quarters percent on Venezuela. We've also taken--we were the leaders on Costa Rica. See, the Brady initiative is Bank of America's Costa Rican plan, the one that the Treasury said will not work. And if you want more about that, I can fill you in chapter and verse. But the Brady initiative was Bank of America's suggestion as to how to deal with the external debt of Costa Rica.

LEWIS: I see.

CLAUSEN: Treasury fought and then introduced it as the Brady initiative. And I'm not bitter about it at all.

LEWIS: Right.

To what extent is it right to think that at the start of this crisis, ’80, '81, '82, there were two schools of thought about the nature of the debt crisis, and they were popularized as one was a liquidity problem and the other a solvency problem. And you got the Bill *[William R.]* Clines of this world who thought it was liquidity. And I might say that I'm quite sure your predecessor was convinced it was a liquidity problem and adhered to that idea for a very long time.

CLAUSEN: I gave a speech in early '82 that Helen what's-her-name from Australia . .

LEWIS: Helen Hughes?

CLAUSEN: Helen Hughes. Helen Hughes thought it was a liquidity problem as well. And I must say in retrospect--I gave that speech at Harvard at the start of '82 and always hung my head a little bit when I think back on that day. That was before Anne. When did Anne come on board?

KAPUR: '82, fall.

CLAUSEN: Fall of '82. I want to say this was spring of '82 because this was Helen and Hollis and Ernie. We’d get in the office of the president and turn on a tape recorder and fashion issues. “Invitation to give a speech, so what shall we talk about?” So we talked to the tape recorder for an hour, an hour and a half. Or, “There’s an issue, and we ought to say something about it. And what should we say?” And we’d gather around the tape recorder. And then, “Let's find a platform to say it on.” Both ways: as an invitation or response to an invitation to give a speech, but then, “We've got a burning desire to say something about an issue, and then let's find a platform to give it on.” It works both ways. I've always done that, in the Bank of America, too.

Yes, there were two schools of thought: liquidity and solvency. It turned out to be more solvency than liquidity.

LEWIS: And really, the Baker plan actually was more a response to the solvency hypothesis, wasn't it? And the. . .

CLAUSEN: And the Brady . .

LEWIS: Baker to solvency. And Brady to the—I mean to the liquidity; I got it backwards.

CLAUSEN: Brady to the solvency.

LEWIS: And Baker to the liquidity, yes.

[Interruption; continues while eating a meal]

CLAUSEN: He had come over to head the U.S. delegation to that. He's doing a great job at the Bank of America.

LEWIS: I bet he is.

CLAUSEN: I must say--we brought him on to really manage our debt in third-world countries and to help negotiate the restructuring of that debt and cross-border obligations. B of A was like 9 billion dollars at five and a half years ago, and today it is--with the restructuring countries it's less than a billion. And I guess maybe we'd knocked off three billion of that by the time Peter *[Peter M. McPherson]* came on board. He's brought it down to less than a billion. So all we have left is Brazil. At one time Brazil was 2.7 billion on Bank of America's balance sheet and now it's less than a billion, considerably less than a billion. So when Peter two years ago, just as I was leaving—I've now retired two years from the CEO's spot--just before I left Peter was given the, not only the debt but was given the, to grow assets in the western hemisphere--everything outside the United States, including Canada and all and Mexico and south in the Western Hemisphere—for loans as well, asset growth. And he fits well within the culture of Bank of America.

WEBB: It might be a bit too hypothetical a question, but I wonder if you've ever felt, if the whole extent of the debt crisis had been foreseen early on, '82, '83 . .

CLAUSEN: You say if it had been?

WEBB: Yeah, if it had been, if the extent of it had been better foreseen, do you think the whole thing might have been handled in sort of less costs all around or was it something that just couldn't have been helped anyway? Were there really many other ways to deal with it than the way it worked out?

CLAUSEN: Well, common sense would be that the broad answer to your broad question, had we known about the seriousness of the problem earlier, could we have abated some of the problems and it could have been less costly, I want to say without thinking it through, yeah, just on common sense, there should have been. What those ways are, I don't know. So I'm inclined to say "yes" because just on--the quicker you know about a problem, the better you can deal with it. But in what ways?

One of the problems is that, unlike physical hurts and pains and diseases--but even there to some extent--the earlier you go to the doctor, the better you're going to be. Now with countries, were reluctant to go to the Fund because knowing that the Fund exacted a pretty--you know, they got a quart and a half of blood, and you don't want to give blood, so you'll wait to the last minute thinking maybe there's a miracle, someone will come along, you'll find a pot of gold, some dumb commercial bank will lend you the money so you can postpone the time you have to go to the doctor and all that. Now, the World Bank in its adjustment lending—and the reason that the Fund had a, is not the most popular instrument in the world, wasn't in the '80s—I would say it is less scorned today; I sense it is less scorned today in '92 than it was in '81, '82;

that's, that's a feel. But had these countries, had we known more, as I was about to say, you know, had countries gone to the Fund earlier and put into place those policies that will give us strength on the longer haul, the damage wouldn't have been so much. Now, would they? What would have attracted them? Reputation? I think they're a little less reluctant to go to the Fund today in '92 because the image of the Fund is a little bit better.

Now, the World Bank, when it takes on adjustment lending, things you cannot see, touch, feel, unlike, you know, hydroelectric projects, agriculture projects, irrigation ditches, all that stuff, the World Bank is leading with its chin as well in a reputational standpoint. I'm inclined to say the World Bank's on the same—the World Bank's reputation today among the borrowing countries, developing countries, is a little fuzzier today than it was, say, back in the '70s, before the Bank was doing structural adjustment lending, sectoral adjustment lending.

Now, there's a debate as to whether the adjustment lending of the Bank has been successful or not successful. I've not read some of those stories, although I've read about the debates. Some of the adjustment lending has done, has been okay. You know, are you selling the fees because of the advertising or are you selling the fees in spite of the advertising? Mexico's strengthening because of opening up the trade regime or in spite of it? Naturally, some of us would say, "Because of." That's the side of that argument I would take, "because of." I realize that others would say that the World Bank maybe really didn't help all that much. I would take the other side of that one. I think the World Bank has helped Mexico quite a lot because there were really a hell of a lot of conversations with Salinas, then head of budget and planning at the time, Silva Herzog, and with de la Madrid long before July '85 when de la Madrid gave his speech on "we've got to open up the trade regime" speech which really turned it around. And subsequently after that they applied to GATT, and then the trade adjustment, sectoral adjustment loan, 500 million dollars, was approved in mid-'86, July, August of '86, but there were three years ahead at that time, laying pipe—"Open up the trade regime, open up the trade regime, liberalize the trade regime"--because the empirical evidence is just overwhelming. Finally, they did. De la Madrid gave a speech, got the internal political support for it, and it was a--then negotiated with the World Bank.

WEBB: Message really went through suddenly, didn't it? I think Chile seems to have had a lot to do with selling people on the . . .

CLAUSEN: Chile, Mexico are the two big examples. Chile first, now Mexico.

KAPUR: One where the Bank tried with more mixed results was Turkey.

CLAUSEN: Turkey's had two. Turkey's had--the first one was a structural . . .

KAPUR: Right. And then a lot of SECALs *[sectoral adjustment loans]*

LEWIS: They've had five structural adjustment loans [all speaking at once]

CLAUSEN: Well, not all structural.

LEWIS: No?

KAPUR: There were many SECALs.

CLAUSEN: Sectoral.

KAPUR: Right. How did you see . . .

CLAUSEN: Well . . .

LEWIS: Let him eat a little bit here! I'm embarrassed.

CLAUSEN: Turkey.

I don't need to eat! I'm going to have a big feast tonight at the compliments of Brookings.

WEBB: I want to mention that I worked for a while with Carlos Rodriguez-Pastor *[Mendoza]*. I don't know if you know I'm Peruvian.

CLAUSEN: From Peru?

WEBB: And I was in the government . .

CLAUSEN: We had a 300 . .

WEBB: . . while he was there as the minister for a year.

CLAUSEN: We had a structural adjustment loan cooking with Carlos.

WEBB: That's right. And it fell through the cracks. It was such a rough time . .

LEWIS: Was that while you were in the . . .

WEBB: In the central bank, yeah. Actually the--I don't know what ever happened. I'd like to find out. The structural adjustment loan was--we were encouraged to propose, to request one in '81. McNamara was still there, and we went through all the levels, *[Nicolas Ardito]* Barletta was very encouraging, and it finally came to a meeting in McNamara's office. I took it for granted this had all been approved, but at that meeting McNamara turned it down.

LEWIS: Did he explain why? No?

WEBB: He said something about—I mean, he looked at our balance of payments, and he said, "You don't need balance of payments support." And that was it. I never did find out what the story behind that one; I'd like to look into that.

LEWIS: You haven't asked him in our interviews.

WEBB: No.

CLAUSEN: Well, Carlos was not the . .

WEBB: He wasn't there then.

CLAUSEN: No, but later when Carlos was minister of finance, there was another attempt then--I didn't know about this one--for an adjustment loan to Peru. I'm inclined to say that *[Fernando]* Belaunde killed that one. Peru was bankrupt, the final days of the Belaunde administration. Jacques and I have talked about this. It was really very sad. Belaunde was pitching for the great waterway to the Amazon when you couldn't meet your payroll.

WEBB: That's right.

CLAUSEN: And literally these were the last few weeks of his administration. Very sad.

WEBB: And he was still trying to sell that.

CLAUSEN: He did not want to meet either with--Jacques and I compared notes--he did not want to meet with staff; he wanted to meet with me one-on-one; he wanted to meet with Jacques one-on-one; which was, I thought, a bit unusual. And all he wanted to talk with me about was the waterway.

WEBB: Yeah.

LEWIS: Were you still governor of the central bank then?

WEBB: Right through to the end of his government, and we were a thorn in each other's *[inaudible]*

CLAUSEN: Well, I like you better already!

I have had five great, great, very satisfying discussions with heads of governments and state, and five totally unsatisfactory discussions. I've got Margaret Thatcher in both groups! [Laughter] And I have Belaunde not in this group but in this group.

KAPUR: Who were the others?

CLAUSEN: Well, I'd say Indira Gandhi is in one of the very satisfying.

LEWIS: Really?

CLAUSEN: We hatched how to, how to break the back of IDA VII, and we needed Margaret Thatcher's cooperation, and I was visiting. This was in—this was early on. This was like January 1982, my first visit to India. And, you know, we needed to break the ice with IDA, and the prime minister was making a very strong and emotional and eloquent plea to the, me, the president of IDA, president of the World Bank, to do something. And I was making a similar plea that the great prime minister needed to also support and she was a far more persuasive and powerful persuader than the lowly president of the World Bank. And somehow we got talking about Margaret Thatcher, the other lady prime minister, and that I was going to go to Margaret Thatcher. So I said, "Well, you too." So Prime Minister Gandhi went to Prime Minister Thatcher, and Prime Minister Thatcher moved on IDA. It had to do with the positioning of IDA.

I needed to clear the way for Japan. And I just was in Japan two weeks ago. I didn't see--*[Noboru]* Takeshita was the minister of finance then. But to make a long story short, U.K. said, "We'd no longer have to be the number two in IDA." The U.S., U.K., Germany, France, and Japan tied before, the same number of shares. The Fed was willing to give more to IDA; the U.S. wasn't, but needed the cooperation of India—I mean of the U.K.--for the U.K. to abandon the number two position. Then we had to work out France and Germany after that.

LEWIS: And she intervened with Thatcher, huh?

CLAUSEN: Yeah. There ought to be copies of letters from the president of the World Bank at that time in the World Bank files thanking both Prime Minister Gandhi and Prime Minister Thatcher.

KAPUR: In fact, I was just reading that on Friday in the minutes of your meeting with Mrs. Gandhi, but then she in turn wanted a sort of reward which was India's share.

CLAUSEN: She wanted more IDAs?

KAPUR: Right.

CLAUSEN: Well, at that meeting I had to tell her . .

KAPUR: Exactly.

CLAUSEN: . . "There's no way, Jose." I didn't tell her exactly like that, but that this was not to be looked at as a penalty but looked at as a reward. And there were more countries that needed it, needed IDA monies, grant monies, low-cost monies, far more than India. And I think I—I don't know whether I gave her a percentage on that trip, but when I arrived there India was getting about 40+ percent, and I think when I left her they were getting about 25 percent.

KAPUR: Right.

LEWIS: Now they're getting fifteen.

CLAUSEN: Yeah, as they should because India's economy has done reasonably well through the years.

KAPUR: Did--well sort of one sees it a little bit, but how much role do the major shareholders have in the country allocations of the IDA?

CLAUSEN: Well, it's reviewed. And there I would say--and they all make some arguments, more behind the scenes than at the table--and I'd say I did not feel, as the President of the World Bank, political pressure to do what the individual countries wanted to do, other than from maybe five or six countries. I don't count India's plea for more IDA monies as political pressures. I think that's--you know, if I was India, that’s what I would be doing, too. But I felt the most political pressure from the United States, and if I were the United States I wouldn't be doing that. That was my test on political pressure. Everybody's going to ask, on the theory that if they don't ask for enough, they're not going to get more than what they ask for. And so I can understand that. But where some pressure is put, when it defied logic for what was best for the World Bank or what was best for the world, then that's political pressure. That's, that’s pure, pure selfishness.

LEWIS: Of course you weren’t there before, obviously, before '81, but one has a sense that the nature of the U.S. pressure changed somewhat, that it . .

CLAUSEN: Under the Reagan administration?

LEWIS: Yeah.

CLAUSEN: Oh, yes.

LEWIS: It became rather more strident and . . .

CLAUSEN: Yes. That's the Reagan administration compounded by the *[Donald]* Regan administration.

LEWIS: Yeah, I can believe that.

CLAUSEN: You know it! See, that third whiplash on the back comes from Regan.

KAPUR: He did not appear to be supportive, for sure.

CLAUSEN: Well, the Reagan administration, as an administration, was not, was not terribly supportive. The Reagan administration, including the President himself, was not known for its sensitivities or understanding of what global economics are all about, global development issues. But I must say that as that administration progressed, it became more understanding. And oh what a difference a Secretary of the Treasury can make! When Jim Baker became the Secretary and *[Richard G.]* Darman became his right hand, arm, then the administration was more sympathetic, I would say, and more cooperative with what the World Bank itself wanted to do, the management of the World Bank.

WEBB: *[David C.]* Mulford has been there right through, hasn't he?

CLAUSEN: Yes.

WEBB: I never got the impression that he was very sympathetic to anything.

CLAUSEN: Well, Mulford is--there's a lot written about Mulford, some of which is true, some of which is not.

WEBB: I haven't read anything.

By the way, did you see the review of the book by Volcker in the *New Yorker*?

CLAUSEN: No.

WEBB: It was in the *Washington Post* over the weekend. It was just published.

LEWIS: And then today's *New York Times* business section has a front-page piece on that book, big picture of Paul.

CLAUSEN: His book is--covers what? His days in the Fed?

WEBB: Quite a long period, actually, sort of, according to the review, ‘50s, ‘60s, ‘70s.

LEWIS: It's a little book, and it reflects lectures that they--he and *[Toyoo]* Gyohten jointly gave a course at the Wilson School last year. It was last year, wasn't it? And they were lecturing about their experiences with international monetary management and sort of started back in the ‘70s someplace and very much dealt with the debt crisis. And I guess they came down--well, they went through no farther than Paul's departure from official life, I guess. But it was a fairly long span, and it was--Gyohten is one of our volume two authors, and he was in talking with us just last Thursday here. And he said it's not a technical book by any means, but the story in the *Times* suggests that it's a pretty lively--it's probably going to have a pretty good trade book sale, I should think. Gyohten was at pains to tell us: 25 dollars, he says, it costs.

WEBB: But what you said about Volcker and Mexico, I'm very sympathetic to that because I was in the central bank of Peru at that time. And it's amazing--it’s hard, I think, viewing it from here, to realize how lost one can feel in a situation like that, in a country going through that at that time, the politics and the chaos. You have a president who *[inaudible]* huge themes, and it's very hard to get any real advice from--or even find anyone you could really talk things through with in a noncontroversial way.

You couldn't do that with the Fund because the Fund would always be there selling something and trying to put something over on you or get you to--line you up. You couldn't have a true conversation with the Fund. I really felt that absence, and that's why I was so grateful to Volcker. Two, three, four times I--we had very relaxed conversations.

CLAUSEN: Volcker would listen.

WEBB: He would listen, yeah. He was the only person.

CLAUSEN: Well, not only could he listen, but in my view--I've never been a developing country or head of a central bank, don't have the capacity--but also Volcker had the capacity to truly understand and have empathy with some of the issues, was what I sensed. And I'm a long--I'm terribly biased--I'm a long-time admirer of Paul's and also Gyohten. I had breakfast with Toyoo last--in Bangkok last year.

LEWIS: He's taking over as chairman *[inaudible]*

CLAUSEN: End of the month. Yeah, I called on Kashiwagi-san just ten days ago. I just—wow, this is, so this is Monday, yeah--eight days ago I came back from Tokyo. I'm an adviser to Center for Global Partnership, which has the, makes the grants of the Abe Fund, 55 trillion yen that moved by the Diet, interest of which goes for research *[inaudible]* the deeply imbedded root problems of the poor relationships between Japan and the United States. And I said I would be advisor to that group--Susan Beresford is also an advisor to that group for U.S.; Akio Marita is one of the notables on the other side--to make sure that the research is going to the right issues and that there is balance where the research is done.

WEBB: We didn't quite finish the story on the Bank's bank because I was very curious to know how you saw it *[inaudible]*

CLAUSEN: I saw the possibilities, recognizing by then how difficult and how extremely difficult--even in some cases impossible from a practical standpoint--to break the tradition, bureaucracy, the rut in which the world was operating. I can remember that when I came to the World Bank that I started, I instituted having a luncheon with the senior management of the World Bank with the governors of the large, of the G-7 as I--to talk about these issues. And I forget where it was. It was not in Washington; therefore, it had to be in Canada. It was in Canada.

LEWIS: Toronto?

CLAUSEN: Toronto. I can remember the--my discussing with the Secretary of the Treasury and the ministers of finance of the Seven at lunch the idea of a Bank's bank and whether it made sense, whether they as the governors of the principal owners of the World Bank--didn't have a majority; OECD countries almost had 58 percent of the vote and probably still have close to that now, but the Seven had something less than 58 percent, but they were the key players--whether it made sense for management. Ernie was there. Moeen was there. And whether there was anybody else there or not, whether Munir Benjenk was there I really don't recall, but that's probably in the record someplace. I remember I introduced . . .

LEWIS: He'd almost gone by then.

CLAUSEN: I remember Nigel Lawson was there; Regan, Don Regan, was there; the Italian, the beard, the young man who later ran for the presidency . . .

LEWIS: Oh, I know.

CLAUSEN: Whatever. And got a, I'd say, lukewarm—I got a positive reception, but it was lukewarm. Then with other issues, when I came back and talked about, you know, "What do we do with this? It probably, you know--not worthwhile pursuing it."

LEWIS: The concern would be that it would threaten the creditworthiness of the Bank itself?

CLAUSEN: Well, that was always in the back of my mind, but it was going to be a separate department.

LEWIS: I understand, but . .

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

LEWIS: . . larger than the capital increase—is that right?--which is in a sense costless almost, in terms of taxpayers' money, and what's happened is that the contributed capital has, as a fraction, has gone down, so that you--over time, right?

KAPUR: Yeah, but each GCI *[general capital increase]* the paid-in portion has been [all speaking at once] so it's really a very nominal contribution, and actually in the countries that have used leverage, in a sense, taxpayers' money.

WEBB: But the change in the gearing ratio you'd think would be much less visible politically.

LEWIS: No, but it's very visible to the markets, and that's politics. That's a tough calculus and . . .

CLAUSEN: We did not spend a great deal of time on the Bank's bank. It's a neat idea, just draw, put that in a box and keep it inside the box, it's very neat, very tidy. But try to move it outside the box into the political realities, that's when you hit the hornets' nest. And that was my first attraction to it when it was explained at one of our managing committee meetings—I guess you call it "management" or "managing" . .

KAPUR: Management.

CLAUSEN: Ment. Okay, not that that's important. But somehow "managing" committee did--which is the way I was born and raised in the Bank of America—in Bank of America I was born into a managing committee, been there for decades, went way back to the '40s and '50s. And it didn't take in the World Bank, so the "management" committee.

As we talked about that, we decided that the time was not right. We had other fish to fry, more important things to do than to work that. But it still is a neat idea. It takes a lot of energy to move things with countries and with governments, even when you're working within a country, in your own government, and you're working, say, in a non--in an institution owned by governments and trying to move 150 governments, boy, that is, that is tough.

See, one thing I learned at the World Bank--the World Bank actually helped me. When I left the World Bank and was called back to California to, back to Bank of America a hundred days after I'd left the World Bank, had retired from the World Bank, then the phone rang and asked me whether I would consider coming back to the Bank of America and helping to turn the Bank of America around because the Bank of America was sinking. The Bank of America was the subject early in 1981 of a--Sandy *[Sanford I.]* Weill had offered to raise a billion dollars of capital if Sandy Weill could become the CEO--this was all in the public--of BankAmerica Corporation. The board turned it down. And then in, on October 6, First Interstate made an unsolicited offer to take over BankAmerica Corporation, and it was--that's, October 6 is a Monday, I think.

KAPUR: Nineteen eighty-what?

CLAUSEN: '86. '86. I left in, June 30 of '86. And that was board day, and about 7:30 at night here in Washington, Peggy and I were having a few friends over for dinner, and the phone rang just as I was heading in to dinner at 7:30. And it was two directors of Bank of America asking, telling me that the board had dismissed the management that day and would I consider coming back.

An hour and a half later, when I hung up the phone, I went back to dinner, dessert was being served. And my wife said, "Kind of a long phone call."

And I said, "Yes, it was."

And I started to eat dessert, took a couple of bites, and the phone rang again, which was another director who then had called from Los Angeles, and he wanted to know what had happened in the first meeting, and so I told him. And I was so drained from that discussion that I asked to be excused from helping to clean up *[inaudible]* dinner. It wasn't until Wednesday that I had the courage to tell my wife that I had agreed to go back to Bank of America for some reason. I was really in a state of shock that I'd been asked, the fact that the bank had gone to such, had suffered so many problems that they had reached back. And I'd been gone almost six years from the bank.

Once I got back, though--not that it was easy—but relative to causing change in the public sector, it is so much easier by factors, I think, it is really almost like shooting ducks in a barrel to get it done in the private sector. And I had to change the, I had to change the culture--not the deep-rooted, marrow in the bone culture, but the discipline, you know, in Bank of America. Two and two never can equal, never can be more than four, never can be less; it always has to be exactly right. And just mind the fundamentals of the business, take care of the customer, and all else will fall into place, and getting that idea across and building self-esteem--because, boy, the bank had been lambasted for a number of years, had suffered operating losses—and got everybody involved in the turn-around. And two and a half years later I could leave because--not that it's ever fixed, but we are now the strongest bank instead of the weakest bank of the top ten banks in the United States.

And it helped me, having gone through the rigors of--closer to the public sector of the World Bank to build a, the know what I had to do, and time was on my side, I'm not running for anything, and get it done. And “do it and never let them see you sweat,” is what it takes.

KAPUR: I was wondering, you sort of--you were saying about these five leaders who you had great conversations with and five you didn't. We sort of got sidetracked. You named Mrs. Thatcher on both sides; Belaunde on one; Mrs. Gandhi on the other. Who were the others?

LEWIS: This is our investigator here!

CLAUSEN: Well, I can imagine if you put it in the book and say that Tom Clausen mentioned five and you're head of a country and you don't see your name on the right, on the "best" list, that that's a problem.

KAPUR: No, that's not going to happen.

LEWIS: Just plain curiosity, I guess, huh?

CLAUSEN: Well, there really are a lot that have been very satisfying. I had a very satisfying discussion with--to go to the extreme—a guy that I think that I can only remember his name (it's called “lots of luck” in Japanese), *[Didier]* Ratsiraka of Madagascar.

LEWIS: Oh, really?

CLAUSEN: Used to be a communist state or communist-leaning country, leaning toward the communists, and when I arrived, 30 minutes after I arrived I was in front of a television camera with Ratsiraka. He was addressing the country. And we had the start of an early program with Madagascar. And he talked 45 minutes with the television cameras going, and, you know, I thought it was pretty strange. I was just sitting there with the television with the klieg lights going, and then he turned to me. And I had never been to Madagascar before, and somebody was whispering in my ear what he was saying because he was speaking in Malagasy. And to make a long story short, as a result of that visit we got Madagascar to move towards market system in the country, making rice, giving it a chance to breathe on the market for pricing and--which I felt very good about. And then when I left, he asked to see me privately for two hours, just one-on-one, and we started some important programs in Madagascar. Tiny, tiny--we had a 15 million dollar program. So those are satisfying little vignettes that one can have.

I’d put--Takeshita was not the head of Japan at the time, but the evening when we figured out how to jump over U.K., Germany, and *[inaudible]* number two in exchange for what, greater support, greater money to IDA--that was very satisfying.

I've had a lot of them. And some that are not so good, when we almost got thrown out of the office of Dr. *[Hastings K.]* Banda in Malawi over population.

LEWIS: Oh, really?

CLAUSEN: Willi Wapenhans was the vice president and I--and Peggy was with me. And she was with Dr. Banda's mistress in the next room. And we were—we got his ire up, Dr. Banda, hit back at us, said that he was going to use the British system for slowing the growth of population. Malawi's a landlocked country. At that time it had a little less than five million people but in the course of 30 years was going to bust out and was going to become 10 million people, maybe less than 30 years, faster than 30 years--I've forgotten precisely. You need to slow down the population because it's going to run out of the critical land mass.

He said, “Well, we're going to use the British system.”

And I said, “Dr. Banda, you realize how many--what percentage of the children that are eligible to be in primary school are in fact in primary school.”

He said, “No, it doesn't make any difference. More and more.”

I said, “Forty-eight percent.” I said, “Furthermore, what percentage of the children eligible to be in secondary schools are in fact in their secondary schools?”

And he said he didn't know.

But the World Bank keeps track of those kinds of things, and it was about 18 percent. I said, “Well, you're going to do it through the British system, through education, and you're not doing it through education. So we’ll try to make a deal, try to—we'll help you improve the number of children going to your elementary schools but also to help you with population.”

And he was going to throw us out. And my wife came in and rescued us, smoothed the waters. And you know, before I left--this was in 1981, fall of '81--I had pumpkin pie served in my room for Thanksgiving Day in our hotel room in Malawi, in Lilongwe, which is the capital. And it didn't taste like pumpkin pie, but it was the idea that counted on it.

And the World Bank had a family planning program in Malawi, I want to say about ‘83, ‘84, so you can’t--there were only five countries that had family planning programs administered by the World Bank in 1981, and when I left five years later there were, I would say, 18 or 19 black African countries--African countries, *[inaudible]* black African countries--which was, you know, some progress on that issue. Population growth in black Africa is the fastest in the world.

WEBB: I guess he was getting on even then.

LEWIS: Oh, he was--I was going out to--didn't do it, but to—exploratory mission to Nyasaland in about '62 or something like that, I think it was. Maybe it was earlier. I think he had some connection with Indiana University. I'm not sure. He went to some American university; it might have been Indiana.

CLAUSEN: He's a medical doctor from, I want to say, Pennsylvania.

LEWIS: Is it? He might have done undergraduate work.

CLAUSEN: He wore his overcoat, his hat. He had a coat and a vest and an overcoat and a hat, black hat, always a black suit--it'd be about 112 degrees in the shade--for pride. And, you know, the Malawians are clean; clothes are clean and white and starched. And Dr. Banda would say, “You're gonna have pride in yourself,” that’s what he gave his people. But don't get too close to him. Has no succession. Something will happen.

KAPUR: *[inaudible]* unwinding since last month, last two months, I mean the consortium meeting, last one that the Bank chairs, reading the minutes it's really unprecedented on human rights. The donors just said, “Forget it.” And Malawi used to be, you know, pretty much a favorite of the donors, and absolutely . .

CLAUSEN: There's a lot of mysterious disappearances in that country.

KAPUR: Right. And it also has--about half the GNP comes from his family. Real--slight skewing.

LEWIS: Concentration of the . . .

CLAUSEN: Makes you wonder.

LEWIS: They must be very gifted people.

WEBB: Education.

Did you ever deal with *[Francois M.]* Mitterrand?

CLAUSEN: Yes, I did.

WEBB: On your list, too?

CLAUSEN: Yes, you see I got along with Mitterrand. The way to get along with Mitterrand is to use the word “Houphouet-Boigny.” Cote d'Ivoire. That's it. That’s a fiefdom, a colony, used to be of France, and Houphouet-Boigny perceives himself to be like Dr. Banda, the George Washington of his country. And Mitterrand takes credit for having gotten Houphouet-Boigny out of jail for being a rabble-rouser and having led that revolt or whatever.

And it was my first visit with Mitterrand--I've had a number of visits with Mitterrand; I don't remember the sequence; I think the first one was fine. The second one, it was not going well at all. He had other things on his mind I sensed until I started to talk about Africa, black Africa, and I mentioned Cote d'Ivoire and the visit six months before that with Houphouet-Boigny. Something clicked! That was his friend. And the whole tenor of the discussion became warm and mellow and friendly and lengthy!

KAPUR: There was a sense of--one sees it in the files--some people say that the Europeans sort of, continental Europeans, except for the French interest in Francophone Africa and therefore their interest in the Bank, so that that's *[inaudible]* but that they sort of had a more hands-off approach or somewhat almost disinterest in the World Bank in the ‘80s.

CLAUSEN: The French?

KAPUR: I mean continental Europe, the Germans in particular.

CLAUSEN: Well, I would argue on the other. I can't tell you relative to before because I have no feel for what went on before, but I would say that my first visit with *[Helmut J. M.]* Kohl—I’ve known Helmut Schmidt for a very long time, first as Minister of Finance and Chancellor and then as the President. And Kohl took over shortly after I became the President of the World Bank, and so none of my senior colleagues had met with Kohl. Heribert Golsong was gone by then, so the most senior German that we had among the senior officers was Wapenhans, Willi, he was a German.

But the briefing about Kohl was far different from the experience of Kohl. And I was speculating with Kohl as to why the Germans were so generous and forthcoming with development assistance as compared with the United States, which at one time was very generous--it still was generous, but not as generous as it used to be--and what had happened in the United States and why it was still strong in Germany. And Kohl--at this point I think Benjenk was with me on that call; it was not Willi Wapenhans. And we were both surprised, compared to the briefing that we had received, how warm Kohl was and how well he explained why the Germans: you've got to keep the development issue before the taxpayers, before the German constituency, rather constantly. And Kohl was, got rather emphatic, and making the point that the German people must never, must never forget the war and the atrocities of war, and why it was important for the Germans' mentality to help others that were in need. And the Germans are very generous.

I remember when we struck out on IDA VII or IDA VIII. Then we went to the African Fund, the sub-Saharan African facility we set up. And I gave that one to Ernie, for whatever reason--well, as long as you're not taking this down on tape, because Moeen didn't want to. Moeen thought it was going to be a loss, and yet we had sensed that Africa would be a rallying point and could get monies, and clearly that was--they had the greatest need. That's the greatest development challenge on planet Earth, bar none. I take nothing away from Burma and Cambodia and Southeast Asia, Nepal, and some of those pockets of desperate--and Germany gave 400 million dollars. We got, I think we got, I would say a million six, a million five, a million six, order of magnitude on that sub-Saharan facility. We finally got 75 million out of U.K., out of shame--well, really--from Margaret. They were unwilling. And we finally got 75 million dollars from the U.S. government out of--I don't know out of what. Clearly it was not shame because that doesn’t carry any, cut any ice with the U.S. Mickey what's-his-name, now dead, head of the, head of . .

KAPUR: The congressman who died in Ethiopia.

CLAUSEN: The congressman. Texas.

LEWIS: Oh, yes.

CLAUSEN: Mickey *[Leland]*. He was the chairman of the Black Caucus.

KAPUR: Died last year or year before.

CLAUSEN: And he was helpful, as was Jack Kemp, who had a--he also responded. His hair stood on end when you said "sub-Saharan Africa." Sub-Saharan Africa did get a movement, and . . .

LEWIS: Did you deal with the people on the Hill pretty--quite a bit or . . .

CLAUSEN: Yes, always through the Treasury. Treasury was—was—that was the governor. We did not approach any legislative body direct without first going through the governor, who is, for the World Bank, is almost always--I can't think of an exception--minister of finance; whereas, the Fund is usually, some exceptions, the central bank is the governor of the International Monetary Fund. But, yes, we had . . .

LEWIS: Did you deal with the White House at all directly?

CLAUSEN: On occasion, but not very often.

LEWIS: And the Treasury would know when you were going to the White House?

CLAUSEN: Well, when I couldn't get to the White House through the Treasury, I went to Jim Baker. Jim got me in.

LEWIS: I was thinking, when our friend Regan was in Treasury and *[George P.]* Shultz was the Secretary of State, did you deal with State at all then?

CLAUSEN: Oh, yes, yes, sure. I've known George--George in California--and when I was really in trouble, I would call George and ask for help. George, George is a—George is a friend.

LEWIS: The problem in Treasury, though, that you felt was particularly the Secretary himself. It wasn't the bureaucracy within Treasury? Or some of both, I suppose?

CLAUSEN: Well, some of both. *[inaudible]*

LEWIS: Yeah, it really is.

CLAUSEN: And if it was on appointments, Treasury had their ideas as to who should be appointed to what spots. Some other countries also had an interest, but the form of their interest took different, was different. There was pressure; there was pressure from Treasury for appointments, key appointments .

KAPUR: These were normally at the VP *[vice president]* level or lower?

CLAUSEN: Well, they were never lower, but the top spots: legal, top economists . .

KAPUR: Right. Did that happen in the . . .

CLAUSEN: . . IFC, et cetera.

LEWIS: Do you think one term presidents are a good idea for the Bank? There have been three of you now in a row.

CLAUSEN: Five years is long enough to know your, to find your way around, even for those that come--the so-called "outsiders," the "non-insiders." And almost anybody coming into the Bank comes in from the outside, even from government. You have a--well, if you come from government, you have a sense of how governments operate as contrast with coming from the private sector; the private sector doesn't have the foggiest notion. That's why the idea of having Ross Perot as the President is a bit strange to me because I would say--I'm only extrapolating on a theory of one, using myself as an example--but I think government is different.

I have long been a devotee of--President *[Richard M.]* Nixon had a, what was called an executive exchange, an executive interchange, an executive exchange program whereby government would send some of their top bureaucrats to the private sector and the private sector would send of its up-and-coming guys for the future and spend a year in government. And I was the CEO 12 years before I came to, came to the World Bank post, and in those twelve years I'd had eight young men from Bank of America that had spent a year in Washington, some post. The Conference Board had--I guess there is about eight months there--but the President's exchange, personnel exchange program, was for a year.

So I remember we sent--the first one I sent was Sam *[Samuel H.]* Armacost, Mike's *[Michael H. Armacost]* youngest brother, Mike, Robert, and Sam. Sam followed me as CEO when I came to Washington here; Sam became the CEO. And Sam worked in the State Department as Nat *[Nathaniel]* Samuels' assistant, which was marvelous experience. Then we brought Sam back. Sam had very broad background in a number of jobs in different parts of the world. He'd done assignments in London, one in New York, one in Chicago, one here in Washington for a year, et cetera. I strongly, I strongly believe that.

But when come, you don't have any of that, and you're running your own business, you run your own business, depending on who you are and the system, you expect what you want to be done to be done. And you don't have to work through Congress and other segments of government to get a consensus and a sense of compromise to get something done. Now, that's an entirely new experience, and you'll die of ulcers out of frustration *[inaudible]* You know, it depends on personalities.

But I—you know, if you have a good president—you know, I thought McNamara for 13 years, you can't quarrel with that at all because I'm an admirer of Bob McNamara and what he had, he had done. I don't think that Bob is the best manager that ever came down the pike, but as a visionary, Bob is an intellect. Bob has compassion, and therefore all of those qualifications made him, I think, the outstanding president the World Bank has had. I take nothing away from--from the--Jack *[John J.]* McCloy, and then it was Gene *[Eugene R.]* Black.

LEWIS: His was a long term.

CLAUSEN: And I think, you know, Gene Black—I only met Gene Black once. It was after I came here, and he was still coming to New York. I went and had lunch with Gene.

LEWIS: He just died this year, and we didn't get around to interviewing him.

CLAUSEN: It's a shame. It really is a shame. I think he made a great mark. It was a much smaller institution. Everybody knew everybody.

LEWIS: Very much smaller.

CLAUSEN: And McNamara seems to me has made, really made the World Bank. Those two. They've all had a different flavor. George Woods, Barber Conable.

WEBB: What you're saying about this institution being government, the World Bank as government, that you really have to be a political insider to get, to turn things around. Do you have a sense of that? People inside mention that because some people said that that was McNamara's hidden talent.

CLAUSEN: Well, McNamara knew—McNamara having spent a good many years as a part of the Cabinet--never having run for office, but he knew the workings for government was--and the U.S. government is not all that different from other governments. It is unique, of course, but there are many common strokes. So having some experience in government and how governments work as the President of the World Bank is an assist, even though the President of the World Bank is not political. That's one of the advantages. The World Bank makes economic decisions and not political decisions. It makes economic decisions in a political environment, you have to understand, and having some experience in government helps if you're the President, before you become the President of the World Bank, helps. The other is not impossible, but it is a bigger transition to being the President of the World Bank, not having had any government experience. It's not impossible, but you should have others in the system that do have or that the approach to governments and working with governments, all—I guess it's 160 members now.

KAPUR: One hundred and seventy-two.

CLAUSEN: A hundred and seventy-two members? So you've just taken a big slug in.

KAPUR: And Yugoslavia is now four.

CLAUSEN: Well, that's right--four, going on how many?

KAPUR: And let's see what the results of the Czechoslovakia elections are and Slovaks. *[Vaclav]* Havel might be out.

CLAUSEN: That's right. Certainly his position doesn't look stronger.

KAPUR: Right.

CLAUSEN: It looks--the possibility that Slovakia is going to be spun off.

Continuing to speculate, what's causing all of this? Even the State of California has a nonbinding kind of a preference asking whether you believe that California should be broken into two states, north and south.

KAPUR: Twenty-four of the 31 counties voted "yes." It was only San Francisco and the urban ones that supported . . .

CLAUSEN: The urban counties voted for one and the suburban and the remote, the rural counties, voted it should be split.

LEWIS: There's quite a lot to be said for fragmentation, though, I mean that we get these things down to manageable size. I remember that Chet *[Chester B.]* Bowles used to say that, in talking to Indians, there's no way that the United States could possibly have survived with only, say, 15 or 20 states the size of Texas.

CLAUSEN: Well, that's right.

LEWIS: And in some ways there's no reason particularly why you shouldn't be able to--but it does mean that then interaction among contiguous states becomes terribly important.

KAPUR: Well, I guess if India did break up, it would get a lot more IDA money.

LEWIS: Oh, that's for sure!

KAPUR: I'm not sure that is a good enough reason.

LEWIS: Not any more. How many ways can you split 15 percent? I don't know. You're saying it would be more than 15 percent?

KAPUR: Yeah, I'm sure it would be *[inaudible]*

CLAUSEN: Young man, how can anybody be sure of anything [all speaking at once] if you had asked me if you were sure that the Soviet Union would last for more months than it actually did. It's changed. Really, when history is written in the next century, looking back on this century, I think what's happened in the last three, four years will be the most dramatic thing that's happened in the twentieth century is my view, that communism as a social and an economic system has been discredited, almost totally discredited. There are not very many pockets: you've got North Korea, you've got Angola, you've got--even Vietnam is crumbling.

KAPUR: The state of West Bengal in India.

CLAUSEN: The state of West Bengal?

WEBB: Canada.

CLAUSEN: Canada? They're communist?

Well, countries are fragmenting, and at the same time corporations are--I would say the weight of, the thrust of the private sector is for bigger amalgamation. And I don't base that on, I'm not extrapolating on Bank of America and Security *[Pacific Corporation]* or Chemical *[Banking Corporation]* and Manny Hanny *[Manufacturer's Hannover Corporation]* or NationsBank, but around the world the financial systems are consolidating. There's nothing wrong with--and also other corporations, too. There's some reverse of spin-offs.

WEBB: Part of it is the financial, but at the same time IBM has gone the way of the Russian empire.

KAPUR: But the fact . .

WEBB: But the way they're going . . .

CLAUSEN: Well, IBM maybe is working on what is called the "squeeze-box theory of management." You concentrate, and I think for corporations to stay strong--my theory--you've got to play like an accordion. You've got to concentrate, and you've got to decentralize, and then you've got to centralize and decentralize--and while you're doing this, you've got to move your fingers. And you get beautiful music if you do it right! Otherwise, it just sounds like hell. Somebody's going to come in and shoot you, and then it really fragments on corporations. But I've long believed that for a corporation to stay strong, centralizing and decentralizing over maybe a ten, fifteen, twenty year period, will keep a corporation strong. That's in chapter three of the book that I'm never going to write.

LEWIS: I was going to tell you about--I'll just say a word and then Devesh can pick up. We have an author in volume two who has written a chapter we didn't expect, a Brazilian. He's given us sort of a treatise of the world, about the history of the world and the nature of development economics and all that along with some perspectives on Brazil. And one of his theories—you know, it's about the old debate that occupied a lot of your attention when you were here at the Bank and since about the relation between the market and state, and most attitudes have been running in the direction of the market in the last fifteen years. He has a cyclical theory of this, and it makes quite a lot of sense, you know, that you never come to rest on this thing. You sort of overdo and then you underdo. And I think there's quite a lot to that.

CLAUSEN: There's some validity to that, sure.

LEWIS: Yeah, yeah.

KAPUR: One of the things which one is sort of foreseeing a sort of global corporation business thing of—I mean, they're retreating to so-called "core functions." And I was just wondering, if you look at the World Bank, in fact it is expanding more and more areas, more and more sectors, women in development to environment, there's almost nothing it is not covering. It was an institution which preached a lot on this comparative advantage during the--how do you see that? The *[inaudible]* is--I mean, of course, you've been out of it, but you must have a reflected on what's the institution's comparative advantage?

CLAUSEN: Well, Anne Krueger, of course she was a devotee of comparative advantages of countries per se, and you ought to, you ought to emphasize and—not stick with but emphasize your strengths as you're dealing with your weaknesses rather than focusing on weaknesses. Some countries, some entities, countries included, corporations included, they focus on weaknesses and then they lose their strength and then they're nothing. But I would say that I see--I'm a devotee of policies and policy framework, and had I to do the World Bank over now that I am considerably older myself and therefore presumably more experienced--that does not necessarily follow, but that's the point I would make in this instance--I would have emphasized government policies more than what the World Bank emphasized policies when I was there. And there again I give Bob McNamara credit for--and his colleagues at that time, including Ernie, if not mostly Ernie, Ernie Stern--for the policy impact, the impact of the World Bank on government, government policies, through the start of the structural adjustment. The first structural adjustment loan was made in 1980 and then followed through. And we had some debates in our Executive Board of how much we should do, and we had debates with the largest shareholders. There was a 20 percent cap. Is there a cap now?

KAPUR: No, you know, I mean . .

CLAUSEN: It’s common sense; they track it.

KAPUR: Well, also in some, you know, some countries have been getting 60 percent.

CLAUSEN: I mean not country by country, but . .

KAPUR: Right, but the whole portfolio . .

CLAUSEN: But the World Bank share of . . .

KAPUR: It went up to 25, but it's now crept back down.

CLAUSEN: But did it--is there a cap of 25? When I was there, there was a cap. You can’t go over--the World Bank cannot go more than 20 percent of its entire lending portfolio . .

LEWIS: SALs are about 10 percent of program lending, and then they talk about 15 to 20 as a . ..

CLAUSEN: Yes, when I was there . .

LEWIS: It went up to--but I think there's not a cap.

KAPUR: No.

CLAUSEN: But I think that there again I like the idea of incorporating policies along with the project because if your policy framework is appropriate and more conducive to growth, no matter what project that you're laying down and implementing, it will produce a bigger harvest for the country that's involved. And so if I were there--and I'm not--but if I had to do it even back then, if I had known then what I know now and feel now and had a better understanding of the world then that I have now, I would have emphasized more on policy change, including what I call the "softer policies," including the environment, women advancement and family planning, population--those soft--education. I think the biggest returns on the World Bank--and this is, this also is in the record--comes from, the highest rates of return come from education and from research, I guess research and education, in that order, by all the projects throughout 40-plus years of investing. And I would have moved a bit more in those, say those five areas than what, than what they did when, the five years that I was there.

LEWIS: Is there much conversation sustained between people in your job and their successors or predecessors? I mean, you said you talked to McNamara before you took over. Did you continue to talk to him afterwards?

CLAUSEN: Yes, but because that's Tom Clausen. I used to call Bob about once a quarter, and we'd have lunch over at the Metropolitan Club. And I would tell him, I'd ask him questions, and . .

[End Tape 2, Side B]
[Begin Tape 3, Side A]

CLAUSEN: . . and doing it, notwithstanding Jacques across the street was not going to do it because Jacques did not want to deal with that bureaucracy. And I wanted to keep the best guys and give them more, and if we were going to have some unhappy people, we're going to lose them off the bottom of the pyramid, that's the private sector's *[inaudible]* And so the system was that, I want to say 65 to 70 percent of the increases were indexed, given to the masses—or maybe even more. And by the third year in, I had it reversed. We were giving the bulk of the increases, merit increases, were based upon merit and not by the United Nations system. And talking with Bob about that: "Where is the opposition to likely to come from? Should I try it because the system is terrible? Bob, you and I know from Ford Motor Company days, Bank of America days, that this is a lousy system." Things of that nature I would talk with Bob. And I would say, you know, all the way through--maybe not as frequently in my later years--but always, say, at least once every six months I would call Bob and have lunch with him over at the Metropolitan Club.

And there is not, I sensed--Bob had one visitation with me, nor did he ever ring my doorbell when I was the president to give me any advice, but I was ringing his doorbell and we were getting together and talking. And I was asking questions and asking for his advice and his experience, which I didn't always take because on that one issue *[inaudible]*, Bob said, "Tom, you're going to lose a few fingers on that one. Don't try it." I felt strongly, and some of my key people, the managing committee, also felt strongly, Martijn Paijmans, Ernie, Chenery, Moeen questionable. And I'm glad I did because you keep your good people if you can give them some big rewards rather than everybody, including the halt, the lame, and the blind, increases.

But there has not been--I remember having dinner with George, George and Louise Woods in New York (Peggy and I went to New York and had a dinner with George and Louise when we first came here) and talking about the World Bank, of course--what else?--and gaining from his experience. And George was complaining a little bit that Bob would really had not called him up and asked him his advice. And I would say George is rather bitter about that.

And honestly I--I've always gone to the elders. I always used to go to Clark Bastian *[phonetic]*, I went to Rudy *[Rudolph A.]* Peterson, I went to the old-timers at B of A. Never surprise your boss is the second chapter of the management book I'm never going to write. Or your predecessors: why not let them know? They've got experience. You don't have to take their advice but you get their inputs. You've got to eat lunch; you can do it over a lunch, and I would.

But there's not much exchange.

LEWIS: I gathered that.

CLAUSEN: I know when Barber *[Conable]* came on board there we set up a system. I felt a little--I was out in the cold. And I felt--I felt that Bob never talked to me. Bob knew what I was doing; the whole Bank knew. I must have talked to 25 people--25 lunches or 25 breakfasts, all on yours truly. The Bank of America was paying for it because I was on salary from Bank of America. But asking, or asking, "What questions should I ask? You know, am I missing the point? Help me out." And I tried to provide that for Barber, but Barber was not--was not, I would say, not really enthusiastic about receiving any advice or discussion or counsel from me. So once I determined that, then I stopped trying.

LEWIS: Never any discussion about promotion to the presidency from within the Bank?

CLAUSEN: No, not when I was there. I've been unaware of that.

LEWIS: Well, I guess we would have run into it somewhere. We don't know but the . . .

CLAUSEN: I've never had a conversation about that. I've had a couple of conversations outside the Bank and subsequent to my leaving the Bank, asked whether that's a good idea or not. I think, you know, I think change--when you go back, you know, is it a good idea to have one term or longer, it all depends. If you've got the right president—you know, I think the Bank was made by McNamara being there that long. And Gene Black. And also five years is--you know, that's a good chunk.

I used to say, "Well, if you can't prove what you've got in eight to ten years as a CEO, then another ten or fifteen or whatever many years on top of that--eleven, twelve--it doesn't make any difference." I usually focus on eight. And I was going to leave. When I was 46 I became the CEO of Bank of America, and one of the early things that I focused on--I had a discussion with the executive committee of BankAmerica

Corporation (our executive committee--that's an affinity group; that is one; it's not a non-affinity group like, say, the World Bank is in that sense of the word; you never have those discussions with the Executive Board of the World Bank; you couldn't) as to whether, how I could, whether I should, and if I should indicate that I'm not going to be here 'til I'm age 65 because you're losing a lot of good people that think they can do it better and, you know, the fact is some of them probably can do it a lot better. And I focused on eight. So I was there two years; I indicated, "Well, I'm not going to be here forever." I'd just drop it kind of conversationally here and there. "You know, eight to ten years is long enough. In eight years I'll be, you know, 54 and ready to start another." And I had it all set to leave at ten years, and then something happened on the way to the market, and I couldn't execute, so it was--I was actually 58. So after 12 years as a CEO, I could. And that didn't work out to be the best, so I did tell everybody this is the last time I'm retiring from BankAmerica Corporation. Never again will I retire from BankAmerica Corporation as I've done twice.

So I can see some advantages to change: new ideas, new perspectives. I won't say it's not impossible, but I do see the advantages to the shareholders to try to change and break bureaucracy. There is a lot written about the World Bank and the bureaucracy, and I said earlier upstairs that it's not, it is not wrong, it is not unreasonable, to be critical of the World Bank for its bureaucracy. It is not unreasonable. You've got to have some bureaucracy.

KAPUR: By this do you mean the time it takes for it to change on larger policy issues or the more micro aspects of the time it takes to process a single loan or the fact that it has many hierarchies or sort of all of those?

CLAUSEN: All of those, all of those. It is, you know. It starts down here, and then it goes up to the next level. They look at the micro of it, and it goes up to another level where they look at the micro level. Then it goes up to the fourth level—which is called Ernie Stern--who red-pencils it and shoves it back down. And a lot of people who used to work for the World Bank and for Ernie have nightmares about red pencils.

LEWIS: Stern-grams, they call them.

CLAUSEN: Yeah. And Ernie was a prodigious, is a prodigious worker, and he is smart. And one of his problems: Ernie was usually right, and that used to frustrate a lot of the people working with him. But I must say he was a motivator. They all respected Ernie, every single one. And the best thing about Ernie that one could respect was his integrity.

LEWIS: Yeah, that's true. I've known him for a long, long time. I would agree with that.

CLAUSEN: I would trust my life to Ernie Stern, and I can't say that about all of the senior officers in the World Bank. There's a couple that I'd quietly count my fingers to make sure I got five back.

LEWIS: Did you ever try to get him to take a little of his sharp edge off of his . .

CLAUSEN: Yes, yes.

LEWIS: Didn't work very well.

CLAUSEN: Not--there were periods when he would back off. And, you know, and he was kind of, he got kind of pleased with himself when he would round the edges and he'd *[inaudible]* "All right, Tom. Just to show you I've been listening," he would show me notes or comments from some of his staff meetings. Ernie's a good motivator. But I said that, you know, a real winner is one that loses a battle now and then. If you want to win the war, you've got to lose some battles. You can pick the battles you want to lose, the unimportant ones, just to show you're human. And I think Ernie has made a tremendous contribution to the World Bank. And I am obviously biased because I like Ernie very much and respect him. And he knew everything, and he would always—would always and did always--keep a confidence, some of the things that would come to my attention from governments and on personality, personnel moves.

Martijn Paijmans was another whose integrity I respected, and on people moves. The manager--the toughest part of any management job is always the issues, but always also on personalities. You need to make a change, something happens, and what to do? Whether to do and what to do. It's always unpleasant when you've got to make change, and particularly when you're in the World Bank environment where you've got governments involved.

LEWIS: Yeah.

CLAUSEN: And I had a few of those to deal with--one was the general counsel; another was the head of IFC--to deal with and keep the respect of the governments and do it in a way that was statesmanlike and hopefully that the successor would be, will be an improvement.

How can you tell a good guy from a bad guy? Well, you ask him, "John, are you a good guy?" And I've yet to find any John who would say, "No, don't pick me. I'm not a good guy." They'll always say, "Yes." But how do you tell? You tell by asking governments and all of that.

KAPUR: On one issue, it's--sort of get back to the issue of debt and the role of the Bank, did your views on the role of the commercial banks in the whole debt crisis, did that change or evolve as a result of your being in the World Bank? I mean, because you were outside, you were in the commercial banks, you were looking at *[inaudible]* at that time and then you were here and you saw it unfold. Then when you went back, you again saw it from that side. How . . .

CLAUSEN: Well, I would say, I guess, one of the reasons—I still don't know--one of the reasons why I was asked to come to the World Bank was in part because Bank of America early on under my watch as the CEO was--like co-financing. I think we were--the first co-financing of a, by a commercial bank was done by Bank of America when I was the CEO. And then in the International Monetary Conference in May 1982, which was in Vancouver--I had arrived nine months, less than nine months earlier--I went to Vancouver and I gave a luncheon address on co-financing and got in dutch with the Executive Directors for having gone outside rather than first discussing it with the Executive Directors. So, you know, you learn.

I thought that was--I want the institution--the private sector, if I want the Bank of America to really do something like disclose--this is way back in 1970--I went on the outside to executive institutes and said, "Bank of America, there are some horses that we've got to let out of the barn." That was the title of the speech. And so the Bank of America is going to disclose to its constituencies, shareholders, employees, customers, and other constituencies some of the mysteries of our operations. I couldn't have gotten approval if I had gone inside because we had a chief financial officer who would keep moving these shells around and you weren't sure there was a pea under one of those shells, he moved them so fast. And once in a while you've got to show that there is a pea under there; you've got to disclose. But I got in dutch. And that I said, "We are going to, the World Bank is going to institute methodologies. We are exploring"--and we were, as management, not with the Board, unbeknownst to the Board—"co-financing with commercial banks because," I said, "commercial banks will come along and support along with and help finance projects financed by the World Bank" because the World Bank had had an impeccable record.

The first default occurred under my watch was Guatemala. Peru was at the end. It might even have happened after, at the end, '85, '86. I think it was in '86. I think I saw Belaunde in February, March of '86. It was towards the end. And therefore, if you associate yourself with an institution like the World Bank that has not had the experience of default, the commercial banks can take a higher risk. And then I came back. That got some publicity that time.

I liked co-financing; I still like co-financing. I only regret that the Bank of America is the only international bank west of New York City. We are not as international as we were because we had to get out of the retail because we had a 1.8 billion dollar loss, loss carry-forward, which I earned out before I left, retired this last time. And there is an advantage for, there are advantages for commercial banks to associate their lending with the lending of Asian Development Bank, Inter-American Development Bank, but particularly the World Bank which provides the strictest--I don't like the word "conditionality" because that's a negative word. The World Bank does not have conditions, but it has conditions--there I used the word again--they have, they are . .

KAPUR: Policy frameworks?

CLAUSEN: . . policies that are conducive to growth--and high-quality growth.

And then afterwards, when I left, you've said, well, then that's Costa Rica. And Bank of America was pushing Costa Rica to have interest rate forgiveness, reductions, which I want to say--we've mentioned his name--Mulford rejected out of hand. The day before Brady, in March 10, 1989--now that I have the years straight--gave his address to the Bretton Woods Committee in the State Department where he spoke at lunch (I was on the morning program) when Brady and Mulford invited U.S. commercial banks to the Treasury to explain what Brady was going to deliver on debt reduction.

I said, “Well, interest rate reduction is also,” you know. I already gave you the argument.

And: “Absolutely not.”

We had before that working with David Bock in the World Bank, a couple of other names in treasury, the World Bank treasury, about Costa Rica, a country that U.S. liked, and let's try something different, and they needed some help, and forgiveness of both debt and of interest. Mulford was against it.

And the Brady initiative is a B of A *[Bank of America]* interest. Now, I don't want to make a big to-do about that, other than to say that B of A has long been supportive of the Brady initiative and long been supportive of the Baker initiative. Mind you, I talk about “initiatives” but not “plans.” I think that's one of the wrong things of the so-called Baker initiative; they first called it a Baker plan, 15 countries only. You cannot quarrel with the theory; the theory is good and needs to be supported.

At the end of that month, on March 30 or March 31, I went to Mexico City. While I was there I addressed the Mexican, Mexico-U.S. Chamber of Commerce, American Chamber of Commerce, on the debt situation, and I talked about debt. I talked about debt also in Buenos Aires a bit later, both debt from the World Bank standpoint--I went to Buenos Aires and made a speech--and then also at Bank of America I went to Buenos Aires and gave a speech on debt. I went to Harvard and gave the Helen Hughes speech back in ‘82 on debt. So you'll find a lot of chicken tracks on debt in my record. But there are situations when you need to have a kind of a bank proxy approach for countries, and I think it's a better world as a result of both Baker and Brady. I don't set one over the other, but the Brady initiative really added a lot to the so-called Baker initiative.

WEBB: The—if all that debt had been in bonds, commercial bank loans *[inaudible]* fifty years ago, a hundred years ago . .

CLAUSEN: Before banks got into that business, yeah?

WEBB: . . do you think that would have made it all easier?

CLAUSEN: Don't know. Bonds are more difficult to negotiate the terms of than with commercial banks because the B-A-Cs, the bank advisory committees, I think have played a useful part. And once the leaders or the members of the advisory committees agree, then you go out to another 500 banks after that. Those have usually worked. When you talk about bonds, you know, depending, you could have, you know, literally thousands of bondholders, and you also could have just a few bondholders. But generally speaking, you'd have thousands of bondholders around the world, and it would seem to me more difficult from that standpoint, from a practical sense, to renegotiate and to restructure a bond from banks.

LEWIS: Aren't some countries that got commercial bank loans, say in the ‘70s, isn't it true that they could not have sold their bonds in the market?

KAPUR: In the first place. But people argue that if it was bonds then you wouldn't have had, the markets wouldn't have bought so many in the first place.

WEBB: That's partly the nature of funding.

KAPUR: Nature of the instruments.

WEBB: No, of the financial arrangements that were in place. If you had different financial--you hadn't had the commercial banks sitting there and the possibility that the Euro currency growing so easily, you might well have had a lot more bond placements.

CLAUSEN: Well, that's right, and if, you know, the dramatic increase in oil, you have excessive funds in a handful of countries, let's say the oil-producing countries, spilling over the liquidity into banks. The banks now have excess funds. What to do with them? How to earn money?

LEWIS: That's the beginning of the whole story, I think. That's . .

CLAUSEN: That's—it out of the genesis of that, that we got some . .

LEWIS: And you had therefore a bunch of creditors who were awash with resources they never had before. They care a damn whether they got an economic return on their capital; they just wanted to park it someplace. They were able to lend it out at a very low real interest rate.

CLAUSEN: Well, also the pressure of the marketplace on that, because there were some countries there that were doing pretty well. Take the Latin American countries. The Latin American countries in, if you put--go to even 1970, the Latin American countries had more growth in real terms as a region, Latin American region, second only to Asia. The Asian countries had done a far better job in keeping their exchange rates more closely adjusted to where their trade was going than--and more outward orientation--where the Latin American countries (I will say led by Argentina, I think is a classic example), they were incestuous, constantly looking at themselves. You know, they were the eighth most industrialized country in the world some years ago back in the '30s, and now they're, now they're moving in the right direction. *[Carlos S.]* Menem has surprised a lot of people. But for decades they were moving in the wrong way. And other Latin American countries, too, incestuous, looking internally. They didn't keep their exchange rates right, and when you liberalize your trade regimes, and I would say that breeds strength. The *[inaudible]* liberalized trade regimes makes countries strong. And we need more of that, even today because GATT *[General Agreement on Tariffs and Trade]* is in difficulty. I've preached that both in Japan and to Korea just in recent weeks.

But if it had been bonds, those are more difficult to restructure. They're also more difficult to get. Now, I think commercial banks can play a role, and I regret that commercial banks in the United States are withdrawing to the extent that they are because, on the one hand, if the world is becoming increasingly more interdependent, which I believe very strongly it is, for at that very moment to have commercial banks withdraw I think is going the wrong way. And I know one board of directors who believes that, and that's the one of which I am on that board, not the chairman of it, chairman of the executive committee of that board, Bank of America does believe that the world is becoming more interdependent, and we are not withdrawing internationally. We are withdrawing from retail business, but wholesale, no. And even in, you know, Peter McPherson now, he's got all of Latin America. He's got Canada as well, both sides. He's got the asset side, growing assets, growing loans, remittances, foreign exchange, swaps, all kinds of swaps, which is a role commercial banks can play.

WEBB: Gyohten was saying that he believes strongly that the world has to move to guarantee these kind of arrangements. He thinks governments can’t help but be involved *[inaudible]*

CLAUSEN: Well, I think that is true. That's one of the thrusts, going way, way back, to MIGA, Multilateral Investment Guarantee Agency, which is now launched, thanks to Ibrahim Shihata. Give Shihata the credit for that.

LEWIS: Right, We will.

CLAUSEN: And because . .

LEWIS: He's been a very, very cerebral general counsel.

CLAUSEN: I must say Shihata was a great move.

LEWIS: Yeah. It really was.

CLAUSEN: That's the second *[inaudible]* I had with the U.S. Treasury in the back who said he was, “Shihata is an A-rab.” He didn't say “Arab.”

LEWIS: No, I’m sure.

CLAUSEN: That was Beryl.

LEWIS: Oh, Beryl Sprinkel, my old friend. We used to compete on [all speaking at once]

CLAUSEN: Said, “Don't you know what the hell you're doing?”

So I went to George. I said, “Well, it's after the fact." Well, I was about to appoint Shihata, and I *[inaudible]* so I went to George. And George went to--used the general counsel of Bechtel, and I had used, I had used Lloyd Cutler to--and I had a pile of readings on Shihata. I had spent a whole weekend reading everything I could about Shihata. Well, I knew he had some special things he'd done for the Arabs. I knew about his Harvard background, and Ibrahim was—you know, I liked that appointment. I think Ibrahim is, is--he took a haircut when he came to the World Bank. A lot of people took a haircut when they came to the World Bank.

LEWIS: I'm sure.

CLAUSEN: A lot of people could afford to take a haircut. I could afford to take a haircut and go from way up here down to about here. Ibrahim was a smaller drop, and he could not afford it as much. But he has really contributed a tremendous amount, I think, to the World Bank. He's a very thoughtful person; he's got a global perspective. And were it not for Ibrahim and his intellect and his perspicacity and his stick-to-it-iveness, there wouldn't be a MIGA today.

WEBB: I'm convinced, just from my own contact when I was in government *[inaudible]* country. I was here; he called me; he looked for me, met me. And he spent an hour selling me MIGA. I wasn't the man who was going to decide, but *[inaudible]* influence a little bit. He spent a lot of time, and I was most impressed by his conviction, his seriousness.

CLAUSEN: The sincerity.

WEBB: Yeah. Rational.

CLAUSEN: Yes. Well, Latin America was slow to come around. Latin America has been slow to come around to . .

KAPUR: In fact, they were the ones that opposed, when the Bank was trying in the late '60s or at least the '70s the then general counsel had been trying that, you know, as you said, it had been in the Bank for a few decades, and it was Latin American countries essentially at that time.

CLAUSEN: But the thing that was wrong on the strategy and where Ibrahim really should be given credit on the strategy, back in the--it first started I want to say in '58, late '50s. Then there were two attempts in the '60s. There might have been one in the early '70s although I think we forgot the '70s, and the two attempts in the '60s. And on those three attempts they tried to put into orbit a MIGA, an insurance entity against political risks, with all the beads and baubles and bangles on it--fully loaded. Now, Shihata, when I had launched the idea there ought to--that the time ought to be here to try once again in September 1980, '81, and Shihata said, "Well, let's don't load it up. It shouldn't be--let's get, let's get it started. It ought to be complementary and not competitive with the indigenous MIGAs" in some 20-odd, 22, 23 countries, whatever, at the time, which was the right idea. So it's not a threat because we needed those countries, and that's why it never got to the launching pad [both speaking at once]

LEWIS: I remember hearing Jacques de Larosiere in a Tidewater meeting--it must have been in December of '80 in Kuwait because I don't think it's the one he hosted with you in October of '81.

CLAUSEN: Which was in Washington, D.C.

LEWIS: Yeah. I think he spoke against it, arguing that the national ones are going to pick up all the winners and leave only the losers sort of for this multilateral one. So he was brought around, apparently, or at least he . . .

CLAUSEN: Well, that's right. Jacques saw it--because the two are not mutually exclusive. You could still have the indigenous. You're not threatening France which had its. You're not threatening OPIC *[Overseas Private Investment Corporation]* here in the U.S. Jacques thought a lot more of French than he did of the one we had here or U.K. or Germany. But it was compatible with, and I think this is the era, or the '80s have been the era of the private sector.

You know, I was the first World Bank president to give a major address--it was in Albert Hall in U.K., whenever that was, '83, '84--and talked only about the private sector because the private sector—that was, "Let's unlock IFC."

That's another one of these lashes here, where some of your friends in the U.S. wanted to have the Peruvian former minister of finance, Carlos, Carlos Rodriguez-Pastor *[Mendoza]*. Treasury was really shoving me around on that. They wanted Carlos to be the head of IFC, a direct lobby. And I would say part of my Norwegian instinct, because the U.S. was making such a stink to put Carlos, I said, "You know, even if he was on my list," which he was, "I can't use him because you're pushing all over the place."

And I went to *[William S.]* Ryrie. Then the Treasury said, "Ryrie? Who's he? He's a government bureaucrat. He's never been in the private sector." So I've got to say--and make sure it gets into the book--that Ryrie has done one hell of a job on IFC, and we were giving him his head, using, you know, borrowing on, IFC borrowing on its own instead of using up the borrowing capacity in the, in the one-to-one ratio, leverage ratio, from the World Bank, let IFC do it on its own. And then it's private sector.

And I must say IFC has come of age. I'm very pleased and proud of what IFC has been doing and capitalizing, exploiting the opportunity of the move to the private sector because the private sector is the strongest force on planet earth—bar none--if you can unleash it. And IFC is trying to do that. So is the World Bank, in its way.

You know, there's always tensions. There was tension between IFC and Moeen.

LEWIS: Oh, yeah. He'd been there.

CLAUSEN: Moeen was--oh, yeah. Moeen really wanted to go back. Have you picked that up?

KAPUR: No. When was . . .

LEWIS: He wanted to go back and be the head of it, huh? I see.

CLAUSEN: And I, I--again, Moeen really wanted to go back. That was his most comfortable job that he'd ever had, IFC, and he too could see--all of us could see, in the IBRD and IDA side, could see the private sector gaining strength around the world. And IFC, that was in part our--*[inaudible]* with Hans, Hans Wuttke. He had a palace--you picked that up--there was a revolution in the palace of IFC for Hans.

KAPUR: For? In a sense that he was the . . .

CLAUSEN: They wanted him out. Hans was the problem.

KAPUR: This was '80, '81? This was early '80s?

CLAUSEN: No, this was '81, '82. It was after I was there [all speaking at once] Oh, I was meeting more time with the staff of IFC and anonymous notes and my god! Hans was a problem--and he was.

KAPUR: We hadn't picked that up at all.

CLAUSEN: Okay, well that's something you want to probe because they were going to kill him or shoot him or hang him or shoot me for not doing it or the Executive Board. It was--maybe I'm being a bit dramatic. But anyway, that's why, how to get Hans out of there without losing--right after Golsong--without losing the support of our, of our number three shareholder at that time on IBRD, the Germans, which, which--it pays to be Norwegian, which I did. I did not lose their respect because they too could see. And the Germans even had recommended to Bob not to take Hans. One very, very, very strong German in the private sector, Deutsche Bank, private sector, said, you know, "This guy is bad news, Bob." Bob moved anyway.

And then to put—then the lobbying came because you've got to keep your major shareholders advised. So I made a trip to Treasury and said, "I've got to make a change in IFC because Wuttke is just not doing the job and there are too many opportunities out there being exploited which are going a-begging. Besides, the staff has had it up to here with Hans Wuttke, and we need to, we need to make a change. So just to keep you advised."

And, then, boy, "It must be Carlos."

And then Moeen came into the office and said, "Look, there's only one job I really have ever felt comfortable with working in the Fund, IFC, finance. You and I have talked about my taking operations," which we had; we'd talked about with Ernie and Moeen; they swapped jobs.

And so I said, "I don't know, Moeen. Let me bounce the idea off. If you want it, I'll support it because you've been such a great civil servant and IFC really needs, really need to express itself and to try to exploit the opportunities that are now there throughout, not universally, but growing." There was a growing feeling, starting in the early '80s on the private sector, let's harness those forces.

And then came my conversation with Beryl, or his with me, with respect to Carlos and the thumbs down. Even Regan came on that, even Regan said, "You know, if you put Shihata as the general counsel, then the whole world will go to the Arabs, and they've already got too much power."

And I said, "There's a Norwegian expression, 'Bullshit!'"

And then I went to George and said, "I--you help me out." And then he came back, and Shihata was, you know, first rate all the way around. *[inaudible]* known about

Shihata, not that he had wanted one example. I said, “I need a little help, George.” I don't know what happened thereafter, but then Shihata was confirmed as general counsel.

And I went to Ryrie. And then the bureaucrat, “Carlos is a lot better.”

I stuck with Ryrie because he had not been picked by the United States government. He was experienced and knew the operation of the World Bank as Executive Director of the Fund, and Ryrie wanted it. I liked the ideas he was expressing, and I said, “I'll help you.” And I think he's doing one whale of a job, *[inaudible]* IFC.

WEBB: It looks that way.

CLAUSEN: I'm not saying that Carlos wouldn't; I'm not saying that at all.

WEBB: You know that Treasury tried once again with Carlos, tried to put him into the IDB. And I think the same thing happened, though, because I think the reason that they quoted was the fact that he was the Treasury's man, and then *[Enrique V.]* Iglesias got put in.

CLAUSEN: Well, also, yeah. Tim *[R. T.]* McNamar is very close to Carlos, and Carlos has had a couple of dinners in Washington. Tim was down south in Los Angeles. Tim McNamar . .

LEWIS: Used to be the what . . .

CLAUSEN: Number two in Treasury, under Regan. It was Regan, McNamar, and Sprinkel in those three jobs.

LEWIS: I remember talking to Ernie after he--in the spring of ‘81, I guess--sometime after he’d just met Sprinkel for the first time. He said, “I can't be real with him!”

CLAUSEN: I've got to go.

LEWIS: Well, you've just been terrific!

[End Tape 3, Side A]
[End of interview]