

**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**JOSEPH J. STERN**

**Date: November 22, 1991  
Jakarta, Indonesia**

**Interview 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.

*Joseph J. Stern*  
*November 22, 1991 – Final Edited*

*[Begin Tape 1, Side A]*<sup>1</sup>

**STERN:** . . . '66 or even '65, but he had been here before.

**LEWIS:** I see. I had him connected with Korea, but he was here?

**STERN:** Well, he was, but he came here. And he had been here earlier but I think not, certainly not with HIID [*Harvard Institute for International Development*]. I mean, I think it was AID [*U.S. Agency for International Development*] or some other capacity. And he came back sort of as an unofficial advisor to help them on the monetary side. He worked very closely with Ali Wardhana, who was then the finance minister, doing the monetary—*[get]* inflation under control which they did very quickly and very successfully. And then that eventually led to HIID coming back, but I don't think we actually came back until sort of the late '60s. Then it was, you know, off and on. I mean, there were times when we were big, and then there were times when we got down to one person. We came back to--Malcolm Gillis was here for a while, and then he became involved in running the, in doing the tax reform. But by then he had actually left. He did it as a consultant. He came back and forth. They had a whole group of lawyers who would come and go back and forth.

**LEWIS:** While he was still at Harvard?

**STERN:** Oh, yeah, yeah. This was while he was at Harvard, but he had been a resident here for . .

**LEWIS:** Yes, I know he had.

**STERN:** . . but that's not when he did the tax reform. He did the tax reform after he'd gone back to Harvard; he was a consultant at the time.

**LEWIS:** But even in your second incarnation, then, you were here before the Bank came in '68 probably.

**STERN:** Yes.

**WEBB:** Were you here in '63, '62?

**STERN:** Me, personally?

**WEBB:** We were studying in '62.

**LEWIS:** Oh, he's talking about in a corporate sense.

---

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

**STERN:** No, in '62 I was in Pakistan.

**WEBB:** You were? I thought you were still studying . . .

**STERN:** No, I left Harvard in August of '62. I'd just finished my general exams and all that jazz. And at that time I went out under the Ford Foundation auspices.

Let me just digress for a second. That's probably the most imaginative program that the Ford Foundation has, which I think is sort of like the Young Professionals program the Bank now has. They called it "Training Associates," and basically what they wanted to do was to train what they perceived to be the successor generation to the people who were at that time in the sort of development business, institution-building business. They picked up a number of people sort of just out of Ph.D. programs, M.A. programs, and they put them with what were then the largest projects that they had, of which the Harvard advisory group--the DAS [*Development Advisory Service*] and now the HIID--was one of them. And I must admit that I don't think even the Ford Foundation quite knew what they were doing. Certainly HIID, which accepted me and then--do you know Carl Gotsch? Have you ever met him?

**LEWIS:** Yes, sure!

**STERN:** Carl was the second person in this cadre, joined me about a year later. I don't think HIID knew what it was doing when it accepted. Ford Foundation said, "Look, you're our biggest client in this business; you better take them." And they ran the program for a number of years, and a number of people that I saw occasionally and run into were brought out as Ford Foundation Training Associates. And then of course when the Ford Foundation thought this over [*inaudible*] But they did try very much to get young people.

**LEWIS:** Well, even then it was fairly hard for people who wanted to do development economics in a sort of professional economist way to get their first licks in overseas, and that's what they . . .

**STERN:** Yes. No, this is what it was. I mean, at that point quite obviously it was never to [*inaudible*] I hadn't a clue where Pakistan was.

I remember people saying to me--no, I won't repeat that--"What's the language they speak?"

And I said, "Well, I'm not sure. They all speak English, I'm sure" or something equally naive and insensitive.

Carl didn't--Carl also came straight from his orals.

**LEWIS:** You know, speaking of language, that's one thing we picked up this--was that this morning already or early afternoon?--from the--I'm not getting names fast here, but .

**WEBB:** [*Radinal*] Mochtar. Minister of Public Works.

**LEWIS:** The Minister of Public Works, I guess. At some point he was telling us that they were constrained in their ability to respond to things coming at him from the Bank.

And I said, "Why?"

He said, "Language." He said that—I mean, he was taking quite a point of the fact that ability to, I guess partly to debate but to write and particularly write in English, answer position papers with counter-papers, was quite a [*inaudible*] skill.

**WEBB:** At the project level.

**LEWIS:** At the project, maybe.

**STERN:** Well, language here is surprisingly difficult, I mean, the language issue. I mean Bahasa Indonesia you can . . . But within the ministry, for example, we are called upon with a fair amount of frequency to do exactly that, because World Bank--they will ask us to write something, or they will have drafted something for us to rewrite it. Speeches will often be sent to us for rewriting and so forth. There is a very strong lack of confidence in English, much more than--well, first of all, there was no—it was not a British colonial, so there is no cultural view of English the way you have in Malaysia, Singapore, you know, Pakistan, Bangladesh.

And then the other way you notice it is, for example, in recruitment of students for overseas. I mean, in the program which we help, which is a World Bank-funded program, the general assistance to training, the World Bank program is called HRDP, Human Resource Development Program. One of the things that the government does is recruit, identify the people who are potentially going overseas a year ahead of time. They then get brought to Jakarta and, partly with the Institute of Economics [*inaudible*] and partly with HIID, we run programs to teach them English, to bring them up to snuff on economics and mathematics. But there's a good portion of it just to get them up to--they keep taking the TEFL [*teaching English as a foreign language*] tests all the time. They take it every year. I don't know how many times a year it's given, but they take it. The OTO, the Office of Training, and the ministry's training office keep track of everybody's score. And we have trouble placing people because of English. And then many of them go to San Diego or somewhere else for further English training before they go on to their MBA. So language is a problem.

**KAPUR:** But very few Indonesian students go to sort of graduate schools in economics in the U.S.

**STERN:** They--the graduate schools of economics is few. They tend to--a lot of them go for MBAs; that's what they—the government sends them for. Economics . . .

*Joseph J. Stern*  
*November 22, 1991 – Final Edited*

**LEWIS:** A Ph.D. in economics early on did pretty well, huh? The Berkeley group . .

**STERN:** The Berkeley Mafia.

**LEWIS:** . . did pretty well.

**STERN:** Now, that, I think, is a very unique—you know, it's difficult to disentangle what's made them so unique. Is it because they had the shared experience at Berkley, they had similar professors, they took similar courses, et cetera? Or is it because they knew--I don't know enough of their antecedents. Were they friends before they went? Would they have been this close even if one of them had studied at, you know, Utah and the other one at Florida State? I don't know. You know, the whole Berkeley Mafia is only five or six people.

**WEBB:** Why is [*Nitisastro*] Widjojo the leader? Is he older?

**STERN:** Actually, I don't think he's the oldest. It may even be that Ali Wardhana is a year older, but I think he's always been the leader. Even when they were at Berkeley he was the--the person who can tell you a lot about that is Malcolm Gillis. He knew all these people, you know, when they were not quite as exalted as they are today. And, you know, they literally had study groups in Berkeley where they would get together and they would discuss what they would do for the economy when, you know, it changed—if it ever changed--when they got back. So they did in fact think about all of this while they were over there, and I think Widjojo was the leader even at that stage of the game. I don't think he's the oldest. I think Ali is the oldest.

**LEWIS:** They had a particular professor. [*Robert S.*] McNamara says one thing that turned him on when he met them in '8 was that he'd also had that same professor as an undergraduate, and I think it was [*Malcolm M.*] Davisson, his name. And interestingly, that's the father of Leigh Bienen. We have a colleague at the Wilson School [*Woodrow Wilson School of Public and International Affairs, Princeton University*] who's just been anointed to be the next dean, Henry Bienen, and he's married to this Leigh Bienen, who is the daughter of—I'd never heard of Professor Davisson, frankly, but I came into the field late, I guess, but . . .

**WEBB:** By the way, what happened to a classmate of ours, an Indonesian? Do you know?

**STERN:** Do you have a name?

**WEBB:** No, I can't remember his name! I think he married or he was—I think he ended up marrying an Ecuadorian girl who was also a [*inaudible*] around. I guess he never returned.

**STERN:** So you people are writing the history of the World Bank?

**LEWIS:** That's what they tell us. It's one of those things [all speaking at once]

**STERN:** Well, don't look at me, John. If you don't know, I don't know!

**LEWIS:** Well, it's one of those things you get into, and if you could withdraw from it you probably would, but there's no way. We're . . .

**STERN:** It must be fascinating.

**LEWIS:** Oh, it's totally, absolutely fascinating, but it's also overwhelming. The deadline is beginning to scare the hell out of us! We have to have our work done by the end of '93, really, because Brookings takes a stately long time to edit, and this is going to be a fairly fat book. And we will have two books, actually, because we're having a second volume of contributed chapters, people looking at the Bank from outside. But, yeah, we're going to be the successors to [Edward S.]Mason/[Robert E.]Asher. And we're going to have a long sort of chronological piece up front that tries to tell the story, decade to decade or presidency to presidency or whatnot, and then a set of sort of sectoral, functional, topical sections that are--Mason-Asher was organized primarily that way, and we've chosen eight of these because we can't write more than four apiece.

**STERN:** One, two, three: it sounds like 12 to me.

**LEWIS:** Well, Devesh is our all-purpose . . .

**WEBB:** He's going to write them all!

**LEWIS:** And so, yeah, we're interested--the files, as you can imagine, as you perfectly well know, are enormous, and we have access to everything including confidential files, Ernie's [Ernest Stern] chron files, and we've been interviewing people like crazy. I think we're beginning to get--I've been doing just a little bit of drafting, but we're kind of beginning to get our wheels in gear maybe--I hope.

**STERN:** You're not going to every country?

**LEWIS:** No, no, no, no.

**STERN:** How do you determine whether you go to Indonesia or . . .

**LEWIS:** The whole damned thing, Joe, is kind of arbitrary and unscientific. We feel, okay, we ought to get out in the field and find out what the clients, the customers, think about the Bank. We ought to go to the three developing regions. This is our first such trip, and where do you go in Asia? Well, you go to India, partly--it's hard to avoid it. We don't stay there very long because I think I know something about it. We then go to Bangladesh because it's in such God-awful shape and there's an interesting history! We were there about three or four days. And this is the country where there's been the

richest . . .

**STERN:** Pakistan? The Indus River Basin development? The Tarbella dam, my god! You've skipped all of that?

**LEWIS:** No [all speaking at once] Well, we have rationalizations for these things. I led an OED [*Operations Evaluation Department*] study of the Bank's history in Pakistan back in '84-'85, so I think I know something about that story up until then. And we're--there are a lot of Pakistanis to talk with in the Bank. And same way Sri Lanka--there is a country study that Gus [*Gustav*] Papanek presided over. We have to use these things in pieces wherever you can get them. We're going to make a trip into Africa and one into Latin America. But this case is, I think, particularly--I don't know that it's really central to the rest of the story because it may be too exceptional in a sense, but it's certainly a very important case.

**STERN:** In many ways it's an amazing story. I think to neglect it--you need to decide what role the Bank played in its post-war role in domestic policymaking, but what I think is so critical about this country is that, assuming it succeeds--and it has a long way to go before you can classify it even as a neonate; it's doing very well, but there are lots of problems, we think--if it succeeds it would be the first large country to have followed an export-led open strategy and have succeeded. Up to now the argument always has been, "Yes, this is okay for Korea, Taiwan, sort of special cases, small countries. You know, Hong Kong and Singapore are sui generis so you can throw them out the window." So there has been no large country in which this has worked. And this, of course, has always been the argument of the Indians or at least one of the arguments of the Indians, you know, that "It doesn't work in large countries; it works in small countries." If this country with this level of population and this level of poverty can, you know, let's say, ten years from now show that you can move from 500 dollars to 1,000 dollars per capita income, that would be the first large country.

**KAPUR:** China might actually . . .

**STERN:** Yeah, China might beat us to it. China is doing very well in parts, yeah.

**KAPUR:** Their exports are growing phenomenally, but . . .

**STERN:** Well, exports here are pretty phenomenal, too. The World Bank has all the data so, you know, you have it as readily available as I have, but the first six months of this year compared with, say, the last year, manufactured exports--which I define in slightly different terms; I mean, I exclude timber for reasons that have to do with the fact that they always manipulate the timber sector [*inaudible*] Chinese merchants in this game--but grew by 40 percent, and they've growing ever . . .

**LEWIS:** Year to year, 40?

**STERN:** Year to year 40. And they've been growing at about 30 percent, 28 percent, for

about three years, now mind you admittedly beginning from a very small base. I just don't want to exaggerate any of this. [pause to get chart]

This is not going to show up on your tape, but anyway here it is year by year, and you know, it keeps . . . This is manufacturing.

**LEWIS:** I see. Okay.

**STERN:** They grew by 40 percent. The year before they grew by 37 percent.

**LEWIS:** Boy.

**STERN:** And the year before that was 30-something percent as well. So that the, you know, the share of manufactured exports which was as little as about 13 percent back in '88, if you go back and look, is now running, you know, over a quarter. Now, you know, part of it is because oil dropped so the others achieve a larger share of *[inaudible]*, but, I mean, this is amazing export led growth. It is concentrated in exactly three commodities: garments, footwears, and textiles, which explains 80 percent.

**KAPUR:** Are those real growth rates, or are they nominal?

**STERN:** These are nominal, in dollar terms.

**LEWIS:** How much credit do you give oil in this story?

**STERN:** I suspect that many of my colleagues would give oil a negative weight in this story, okay? They began their deregulation and their reform process not because oil had made it easy for them to do it, but they began it when oil collapsed. Now, admittedly, Ali had the foresight to start working on the tax reform before the oil prices collapsed. He asked Malcolm to work on that in the early '80s, and the oil prices dropped somewhat later. Nevertheless, they pushed it through when the oil prices collapsed because they argued at that point that the government needed other sources of revenues and therefore that tax reform was needed.

Much the same is true of the deregulations. None of that took place when the oil prices were up here. I mean, the oil prices, the oil boom, of course, at one point led to Pertamina practically leading the country to bankruptcy. All of the deregulation measures happened post-oil crash.

Now what the oil did, I think, to be quite fair, it did allow them to build infrastructure--probably wastefully in some cases and so forth--but it did allow them to lay an infrastructural base which they probably would have had difficulty doing if they hadn't had the oil. So in that sense I think it may have been a positive. But all the reforms really postdate the collapse of the oil. Now, it's nice to have, you know, 25 percent of your exports in *[inaudible]* commodities.

**LEWIS:** At least there hasn't been as much, in the last 15 years, as much negative effect from oil as you would say there has been in Nigeria and . . .

**STERN:** No, they never did--and I think this has to be given credit to Suharto--they never allowed the de-agriculturalization to take place the way Nigeria and Venezuela and some others did. They consistently protected the rural areas and maintained, you know, relatively high prices for rice in order to bring up rice production. That contributed both to, I think, the growth and also to the reduction of poverty, which, if you believe the World Bank's figures--but we are also doing some independent work on that now—you know, really absolute poverty seems to have been largely eliminated. Now, you know, some of the outer islands, yes, you go to Irian Jaya and so forth, there is still poverty. But, you know, the bulk of the population, of course, is on the three big islands, and there people tell me—I mean, we have a team now doing a study of poverty, and they tell me--there are a lot of poor people; I mean, I'm not saying there are no poor people--but the absolute poverty levels are really hard to find, you know, malnourished or [both speaking at once]

**LEWIS:** That's quite impressive. It's the first time I've ever been here. This high-rise stuff is really mind-boggling. I've seen a lot of high-rise capitals but I don't think anything quite as striking as the gathering of physical capital here.

**STERN:** Now, I find this totally amazing. I mean, well, first of all, there are two things. One is it's still very thin. You should go to the top of some of these high-rise buildings and look out, and then you see all of the low-rises right behind them. It's a little bit like, you know, Potemkin villages in Russia. I mean, you drive along Jalan Thamrin or Rasuna Said where the World Bank is, and you say, "My god, this is a modern metropolis." You go to the top of those buildings and you look behind them, and there's just nothing. It's very thin, and that's the way a lot of the development here still is. It's very thin.

The other thing, of course, is that the boom seems to be unending, and I don't know who's occupying all these offices. Every time you look there's another hole in the ground where yesterday there was a little building standing up. Down!

**LEWIS:** It would be a great place to be in the construction business.

**KAPUR:** How are the inequalities in the last three or four years in the boom?

**STERN:** Three or four years is hard to tell because we don't have the data. The earlier studies which, of course, were done by the Bank, tend to show that poverty, that the inequality, has improved. You know, casual observation--and that's all it is--leads one to suspect that it has worsened somewhat in this rapid boom of the last three years. I mean, there are huge shopping malls and fancy restaurants and all here, lots of symbols of sort of ostentatious wealth growing up. But, you know, this is a big country, and observing Jakarta and a couple of other cities is not necessarily observing the whole country, so I wouldn't bet on it. I suspect it has worsened somewhat.

**KAPUR:** How much of the wealth is there in Jakarta as a fraction of the . . .

**STERN:** A lot.

**KAPUR:** But not like Bangkok in Thailand?

**STERN:** No, not quite as much. I mean, there are some other major areas of development—there's Surabaya and Medan and Madura, for example--have equally rapid growth: factories coming up, big buildings, hotels, all the sort of, you know, signs of industrialization. So it's somewhat more spread out than Jakarta.

**LEWIS:** What percent of the population is rural, do you know?

**STERN:** Oh, still quite a bit. I think something like 60--still quite a lot.

**LEWIS:** About 60? But that would be less than in Thailand, I think. Thailand is a funny case. A very high percentage rural, but all the urban is practically concentrated in Bangkok.

**STERN:** Exactly, yeah. There are--I think the difference here is there are other big cities, [both speaking at once] not to rival Jakarta, but there are other big cities.

**LEWIS:** So what do you make of the Bank? [Laughter] Let me ask you one thing. The Bank--as we talk them both in Washington and here, just on the basis of a very good conversation with Nick [*Nicholas C.*] Hope this morning and two other three others including Jim [*James Q.*] Harrison and then with the people in the Washington--are at pains to emphasize that they are just one of the interactors, that the Indonesians are awfully good at taking advice, inputs from all around, from different suppliers of inputs, including yourself. On the other hand, as they get talking about their activities, you get this very strong feeling of particular closeness between them and the government, that--and I don't know that this is necessarily--do you agree with that?

**STERN:** Sounds like that, yeah.

**LEWIS:** Maybe it's not inconsistent, but you, of course, sitting right here in the ministry, and you're a hired gun in a sense to be advisors to the GOI, this GOI, but what about the closeness with the Bank? Is it . . .

**STERN:** Let me answer in a slightly different way. I think not only here but in other countries as well, the Bank's dominant role in terms of provider of aid and so forth, its prestige, obviously it would be hard to ignore anywhere. But I think one of the things that really makes a mission more or less useful is the quality of its staff, and I think here--at least, I have known Bernie [*Bernard R.*] Bell earlier and then [*inaudible*] ones--but at the moment I think you have a person whom they truly like and trust. I think that makes a hell of a difference. I mean, even if the Bank had somebody whom they didn't like, the fact that you are the largest aid donor, that you organize the IGGI [*Inter-Governmental*

*Group for Indonesia]* meetings and the dominant role in the whole development process would always mean that whoever heads the mission here is going to have some access. But I think what often happens in these countries is that it depends on the person. And I think in the particular case here and other cases where the Bank was particularly lucky, astute, whatever, in having somebody whom they truly trust and value. They listen to him because they know he's representing the Bank, but they also listen to him because they think he's giving them objective advice, not just *[inaudible]* advice.

**LEWIS:** Had he been out here before, do you know?

**STERN:** No. As far as I know this is Nick's first overseas assignment.

**KAPUR:** That's despite the fact that in general Indonesians have been wary of Australians.

**STERN:** Yeah, that's true. That is true. [all speaking at once] But, you know, I know from the way they talk, the way Ali and others will talk about him, that they truly like him. They think of him as a person they can trust. [all speaking at once]

**LEWIS:** I can see why; he's an impressive guy and I like him.

**STERN:** Now, to be quite honest, that doesn't mean that when a document from the Bank comes it doesn't get sent to us or to others with, you know, "What do you think of this?" And very often we would say, "It's fine, but, you know, there are other points of view when you look at it." But they do value his input to the debate.

**WEBB:** You don't mention Marianne Haug.

**STERN:** Well, she's not out here all the time. She comes through. I've only met her about three times now, so I don't—you know, Nick Hope and I see each other fairly frequently. So, you know--and I know that Ali and Widjojo and so forth see him frequently and they will often tell me he has said X or he has said Y, "What do you think of this?" I don't know how they react to Marianne.

**LEWIS:** Apparently this has been an unusual post in that the representative here--not now as the case, but before he's actually been superior to the reporting channel in Washington. In the style of Bernie, of course, he had a direct shot to McNamara.

**STERN:** Which they valued very much and continue to pay their respects to Bernie, as you know.

**LEWIS:** Nick was saying he still leads the Bank delegation to the IGGI meetings, which is unusual.

**STERN:** Oh, is it?

**LEWIS:** Yeah, I think so.

**KAPUR:** It's usually the country director in Washington.

**LEWIS:** Yeah. It would be unusual in AID terms to have a mission director to be the--it would be the assistant administrator.

Well, that's interesting. I guess Russ [*Russell J.*] Cheetham also had a pretty good . . .

**STERN:** Russ Cheetham, yes. No, you've had--out here they've had very good--I don't know all of them who've been here, but I don't know anybody that [both speaking at once]

**LEWIS:** D. C. Rao--we heard that they were nervous about putting an Indian here, but I guess he worked out quite well. Right after Bernie, I think.

**KAPUR:** No, D.C. Rao was in the '80s.

**LEWIS:** Oh, was it '80s? I'm wrong then.

*[Interruption]*

**LEWIS:** How many are in your team, by the way?

**STERN:** I guess about 18 residents.

**LEWIS:** Eighteen residents.

**STERN:** Yeah, but not all in the ministry of finance, although most of them are in the ministry of finance. There are--there is this project here, which is called the Customs and Economic Management Project; that has about six or seven, six, I guess, people. And then we have a project on urban and financial planning which deals with urban loans, water projects, sewer projects, transport issues; that has about five people. Then we have a project called PFSTP, Program on Financial Sector Training and Policies, which deals with capital markets, bank deregulation; it's currently working very hard on the insurance and pension reform; that has four people. And then we have a project on property tax, trying to help build up a property tax base, a project where the World Bank and us have been at loggerheads, I guess, where we have only two people--one at the moment. Then we have a project in Bank Rakyat, Indonesia BRI, the People's Bank on Rural Savings and Rural Investment, and that's been very successful. Do you know Dick [*Richard H.*] Patten at all?

**LEWIS:** I've heard of him, but I don't think I know him.

**STERN:** I think a truly remarkable person in rural credit, rural banking.

**LEWIS:** Has he been with HIID a long time?

**STERN:** He's been with HIID since—well, I certainly met him in '62. I think he predates me, which is saying something, and he was in Bangladesh, or East Pakistan at that time. That has about three or four people in it. And then there is a project, something called the Center for Policy Implementation Studies, which is an attempt to build a research organization.

**LEWIS:** Gee! You've got an empire here!

**WEBB:** Harvard hasn't been very much connected with infrastructure, has it?

**STERN:** No. I think it's probably fair to say that all of the projects here have been looking at various aspects of policy, economic policy, rather than infrastructure. Now, the urban project does some work on transport planning, that kind of thing, but not really.

**WEBB:** In that sense has there been a bit of a division of labor with the World Bank, not planned perhaps, but . . .

**STERN:** Oh, yeah. Well, there are other players in this scene. I mean, there is, as you know, a very large project run by Boston University [both speaking at once]

**LEWIS:** What does that do?

**STERN:** Well, that's over at the planning ministry. And it is running quite well now. It had a very rocky beginning. The idea was to do a lot of training—I mean not training by sending people abroad, although they do that as well, but training by working with counterparts, and that every deputy in BAPPENAS [*State Ministry of National Development Planning*] would have a counterpart who would help him in designing research programs and looking at work that the junior people were doing and so forth. And so they have focused much more on sort of research analysis, rather—what we focus on are purely much short-term sort of policy issues as they arise. Mind you, we sometimes have--all of us try to have a longer-term interest as well because otherwise you would go crazy. All you do is respond to the immediate crisis. The DPS project really does look at a very different kind of . . .

**LEWIS:** Well, you know, you know perfectly well, I guess, the visitor's reaction to this. These people certainly are not allergic to technical assistance, are they, and they take an awful lot of it.

**STERN:** They take an awful lot of it, and I sometimes quite honestly think they take too much! You know, just in this building here there is a group from [*inaudible*] that is doing something on urban planning. There is a group from the Research Triangle, RTI [*Research Triangle Institute*]. And there is, of course, a Price Waterhouse team down the hall which advises them on capital markets--we've bowed out of the capital markets side; we're only on the financial, banking side--that advises them on capital markets. So they

have . . .

**LEWIS:** Chock-a-block!

**WEBB:** Is this in any way blocking the development of lower tiers . . .

**STERN:** Well, if you had asked me that about three, four years ago—I mean, I've only been here a year and a half, but I've been coming as a consultant for about six years now--if you had asked me that three or four years ago, I would have said no. To be quite honest, the first time I landed here, this building did not yet exist. We were across the street where the ministers sit. I was absolutely shocked. I had never seen an HIID project in which all the advisors were sitting on one floor. At that time when I raised this question--I raised it with Glenn Jenkins and Malcolm Gillis--the argument was there are really not yet enough trained Indonesians that one can say we ought to be working with them. I mean, the ministers truly rely on us.

That's no longer true, and we now, although we still sit here--most of us sit here; one or two of us have actually begun to now sit with counterparts in different parts of the building--we work much more with the counterparts. I mean, we try to transfer projects and programs to them. For example, we built a big data debt model for them. I didn't, but one of my colleagues did. And that debt model has now been given to them, but we have a copy up here. It's not clear that they are keeping it up to date; that's why we've kept a copy running up here just to make sure we keep it up to date. But we have begun to work with them.

So I think it's beginning to change, and I think that's beginning to raise some questions, too. I think that's beginning to change the atmosphere towards foreign advisors, foreign consultants, as you have it in Pakistan and other places. As younger people come back with training they begin to question why all these foreigners are still here. And I think you'll see, begin to see a diminution in the future because there are already signs that as the younger people come back they begin to question this role of the foreigners. So it is changing.

**WEBB:** Let me change the subject a little bit. When I read summaries, evaluations of projects going back, the general impression I get is rather a messy history, and it doesn't look too different from what I read in other countries, and yet everything here has moved along in general so much better than most--in an awful lot of other countries. And I wonder whether--is there really something here that I missed, that's not coming through in what I'm reading, in the sense that these Indonesians have learned to implement their projects somewhat better than is average, or is it that all the sins of inefficiency all have just been covered up by good general record. In other words, it looks good despite a quite average performance on projects.

**STERN:** I think I would lean towards the latter. I don't think they have a magic, okay? I think it goes through a whole list of things that go wrong and so forth. Mind you, I think on balance they do a lot of things very, very well, and as I said, if the economy keeps

booming, a lot of these things get swept under the rug or however you want to define it. I don't think it's as rosy as you would--I think they have as many problems in implementation here as lots of other places, both on technical assistance as well as other projects. And policies—I mean, it's often inconsistencies in policies.

But to be quite honest, there's--the group of technocrats at the top manage to right the ship before it goes too far wrong. Take, for example--I don't know how much you've been clued in and so forth—there was a--things were relatively easy about a year ago when money looked like it was pouring in and the economy was expanding rapidly, and a whole group of projects were being proposed which now have the label so-called “mega-projects.” Different people had different lists, but they added up to a huge set of projects. Some of them make sense and others of them are the usual lousy import substituting projects. And for a while it looked like the implementation of those projects was unstoppable. Many of them were financed by Japanese banks who were quite willing to pour in the money regardless of what the rates of return were. Many of these had--this is not to be quoted or not to be ascribed to me--had family connections; I mean, the sons or the daughters were involved. And a number of others were being managed by major political figures, Chinese and so forth, so that there was a real feeling even among the technocrats that these projects were going to sink the economy, you know, 78 billion dollars or something like that. Different people, as I say, had different lists. They still, despite all of this political pressures to go ahead, they managed to persuade the president to issue a decree that essentially created a team that now screens the projects, there are ceilings as to how much offshore borrowing—I mean, now, none of this is perfect. There are still projects that are being—it doesn't mean that all the projects go through and so forth, but there has been at least the ability to put on the brake before it gets totally out of control. That, I think, has saved them in a number of cases.

**WEBB:** What about this mystique, this cultural mystique?

**STERN:** The what?

**WEBB:** Cultural mystique. We heard—in fact, I was going to say we've been talking for 40 minutes, and you haven't mentioned culture yet. And it is the first time . . .

**STERN:** Economists are not supposed to mention culture!

**WEBB:** I know, but that's--the whole point is we keep hearing this, the six points or the five points or . . .

**STERN:** Pancasila. Five points.

**WEBB:** And I don't know this--the way that we've heard this, it seems to be part of an explanation for why things have worked out better.

**KAPUR:** Let me [*inaudible*] which is--I've sort of been intrigued, if one sees a little bit of what the Bank is ostensibly making its noise about this governance issue, you know:

free press, labor laws, *[inaudible]* free judiciary, and military in the barracks. These are the sort of major ingredients in this respect. If you had these four: free press, no military or in the barracks, you know, reasonably independent judiciary and noisy parliament, do you think Indonesia would have got to where it has? Or do you think the technocrats would have had the sort of say which they had?

**STERN:** I would say, no, they wouldn't have gotten where they were, okay, but I'm sure you can find lots of political scientists and social scientists who would say yes. I mean, there was an *Economist* article--I think about two weeks ago or something--which talked about whether you needed a dictatorship to grow or not, and they also, you know, waffled all over Korea, yes . . .

**KAPUR:** But the *Economist* always . . .

**STERN:** Hong Kong booming without any government whatsoever and so on, you know, and Thailand having sort of unstable governments all the time. I don't know. Given the history of Sukarno and the failure to develop a sort of transfer of power mechanism, I think it would have made it very difficult to see how, you know, you could have ended up in a situation like, let's say, Pakistan's continuous inability to agree on whose policies and who's the next leadership. So I think the fact that . . .

*[End Tape 1, Side A]*

*[Begin Tape 1, Side B]*

**STERN:** . . . Javanese culture, which is the dominant one, or seeking consensus or never rocking the boat or never taking very drastic or deliberate action is what makes this place governable, I mean, that people never take—go to the extreme. There's always an attempt to seek a consensus and save the day and not push anybody to a position of extreme. I don't know. That may be true or not.

**KAPUR:** Well, the extreme of that—never taking any drastic action, sort of inaction, that *[inaudible]* has done very well. So I'm a little bit . . .

**STERN:** See, you can always find the other side of the coin. I mean, you know people always used to say, “Confucianism is what allows Korea and Taiwan and Singapore and so on to rise,” and of course in the '50s everybody was saying how Confucius and the veneration of the elders and the family was what made these countries so backward because they had no entrepreneurial talents, and, you know, you could never rise to the top except if you were old and very--I think we really don't know enough about this.

**KAPUR:** Also, I guess, it's the sense that if that was the case, then *[inaudible]* these countries for two thousand years.

**STERN:** Yeah. Well, at one point, of course, they were way ahead of us. [all speaking at once]

**KAPUR:** Right. In the fifteenth century. But there were lots of other cases. So were the Indians.

**STERN:** We may not see it, but our children will. I think they will be ahead of all of us again, or at least ahead of the Western world. I think this is where the future of the world is. No doubt about it.

**LEWIS:** Where? In East Asia?

**STERN:** Yeah. If you want to see the future, you come out here.

**LEWIS:** Okay, of course our business is to write history and not futurology, but you can't help wondering where this--this could be—if you want to just rush through a hypothesis--could be a sort of lucky set of circumstances you've had here, a terrible trauma in the middle '60s and you had then leader who turns out to be pretty damned sensible, sensible enough to take guidance (economically, at least) from this unique set of characters who were trained in Berkeley, thanks to the Ford Foundation, and that collective has the additional advantage of having one clear leader who never lets, who avoids any infighting in the group. He's the number one, and he's stayed all the way through. And they have all these hired hands like yourself in here, and if you add value at all, then this is one reason for the performance that they've had: an awful lot of ringers helping them make decisions, the right decisions. And oil has not been a disadvantage at least. And it's a very positive story. But now you get toward a point where this set of technocrats is aging, and the leader is also aging. He's about my age or something like that.

**STERN:** That old, John?

**LEWIS:** Yeah. [Laughter] So what kind of transition is there going to be?

**STERN:** That's the toughie. The technocrats age--and let's deal with that one first--there is a successor generation, some of whom have been trained by the technocrats themselves. I mean, take, for example, I don't know whether you have met yet or will meet a guy named Marzuki [*Usman*], who's the head of the stock exchange, but who was a director of one of the units here in the ministry of finance. And he's still—of course, the security and exchange commission, BAPEPAM, is still a part of the ministry of finance. He certainly was identified by Ali and Hussein as one of the successor generation. There are about three or four guys in this ministry right now who clearly are the rising stars. There's one in the ministry of planning, BAPPENAS, who is a young person who was imported from the university, school of [*inaudible*] So they are aware of this, and they have looked for it. Now, whether these will have the same cohesion, whether they will have the same unifying spirit as these technocrats have had up to now, that I don't know. I suspect not. But the country is somewhat more mature, too, and it's not clear that it can't survive that.

On the political/military side it becomes more difficult. You've now had Suharto for--was

it 1964 or something he came in? So it's now 27 years. I doubt--indications are he will run, and indications are he will be elected, so we have another five years. What happens after that becomes a real question because no foundation has been laid for a succession. I mean, there is a constitution, of course, that does provide for that, but they've never tested it, so that becomes a real problem. The technocrats are ageing, and they are also--they have begun to lose power. They are no longer as predominant, preeminent as they were, in part because there are younger voices who are being heard, some of whom more nationalistic, some more strident, from the university, lecturers at the universities, others at some of the research centers, who will, I'm sure--if not in this next government, the one after that--play a much more leading role and who are pressing the technocrats: "Why are you convinced this is the only way to do it" and so forth.

**KAPUR:** And the family wealth—how--is that *[inaudible]*

**STERN:** Is that . . .

**KAPUR:** Is that also a factor in the technocrats' *[inaudible]* throughout the country?

**STERN:** I'm not sure I follow the question.

**KAPUR:** In the sense, given that the family itself, because of its larger wealth, has acquired far larger *[inaudible]* sons and daughters.

**STERN:** Their power is purely economic. I mean, they have no—there's no indication that any of the four children, as far as I know—three of them are very active in the economics--have any interest in the politics.

**KAPUR:** No, but in the sense of--like the flow of monopolies, that sort of begins to interfere with rational economics.

**STERN:** Oh, sure. I mean, many of these large projects, projects that the sons and the daughter are involved in, and that, you know, increasingly—you know, sure, as they have become more active the scope for where the technocrats can move—I mean, take--there's a minister called Minister *[B. J.]* Habibie, who is the minister of technology, and he is a sort of adopted not son but sort of an adopted brother of the president. They've been together since President Suharto at one point was sent to Sumatra for some military action, and he met Habibie there, and the families have been together ever since. He—you know, his strength comes from being--not related but very much in favor with the president, and projects that he wants to push are very hard to defray even if it's very clear that they are marginal or bad projects. So, yes, that is a constraint. And it grows—you know, in some ways the opening up of the economy has lessened some of this.

That's, of course, the argument we always try to make is that one of the benefits of the deregulation has been to reduce the monopoly power. But, mind you, it's not so much monopoly power because these family members, I mean, are not in one industry. It's not as if they control sugar or something so that, you know, they have a monopoly. I mean,

they are spread across a range. I mean, they are true conglomerates, which means that, you know, it's much more difficult to deal with them in some ways. I mean, every time you turn they have a part of the action, and that is kind of one of the real dangers. How that will play out I have no idea. I'd love to be around—or maybe not.

**WEBB:** Well, this is--we could go on for days.

**STERN:** How long will you be here?

**LEWIS:** I shouldn't knock it because this is our longest stop of a whole week. I'm going to be here until the 28th, which is I guess six days from now, and these people are going off . . .

**WEBB:** We'll be here five days; we'll go Monday.

**STERN:** Where are you going?

**WEBB:** We're going to Manila.

**STERN:** Very different scene, I'm afraid.

**WEBB:** Yeah.

**LEWIS:** I'm going to retreat to India [*inaudible*]

**STERN:** I can't imagine why, John!

I think one of the things--as I said before, if this country succeeds, it will be the first large country, and to some extent, if it succeeds, it is the model that the Bank has been pushing for—at least in its current form--for some ten years now.

**LEWIS:** Yeah. Oh, yes.

**STERN:** And, you know, I think the success of this country is that it will be an important object lesson eventually. When they write history books it may be—it may be the one that [*one*] looks at seventy-five years from now.

**LEWIS:** Maybe we can see what the trade, what percentage of GDP it is. Do you know?

**STERN:** Exports and imports in total? I could look it up for you. I don't have that number.

**KAPUR:** It's very high.

**LEWIS:** That's right. It is. In my rank order list of countries, they even—you can really generalize about the relationship between large size and small trade ratio; Indonesia is the

biggest exception. Japan's fits that sort of model because its export trade ratio is fairly low. But Indonesia, that's right. It is the . .

**STERN:** It's a huge natural resource country.

**LEWIS:** Yeah, of course, I mean . .

**STERN:** If you further split it between trade ratios for resource rich, resource poor, naturally Indonesia stands out. I mean, timber and iron ore and coal and gas and oil.

**WEBB:** They're both almost 30 percent, so that adding the two you get 60 percent of GDP. That's very high.

**LEWIS:** Very, very high.

**KAPUR:** *[inaudible]* largest country.

**STERN:** What is Malaysia? Do you have Malaysia in that table?

**WEBB:** No, this is just Indonesia.

**STERN:** Oh, that is just Indonesia. Malaysia must be up there, too.

**KAPUR:** For countries above 100,000,000, it's usually between 10 and 15 percent, no more. *[all speaking at once]* The U.S. is just now crossing . .

**LEWIS:** It's about 15. The Soviets, China--of course China's been growing like . . .

**STERN:** Who else are you meeting, John? Do you know?

*[End Tape 1, Side B]*

*[End of interview]*