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A CONVERSATION WITH ALEXANDER STEVENSON

WASHINGTON, D.C.

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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Robert W. Oliver

OLIVER: Sandy, let me begin by asking you to say a bit about how you came to the Bank in the first place and about your career in the Bank.

STEVENSON: I was demobilized into Washington by a series of accidents and was working for the Treasury Department at the time the British loan was being signed. I knew from before the war Antonin Basch who had been on the Czech delegation to Bretton Woods. He had joined the Fund and transferred to the Bank, and he called me one day and said, "Why don't you join the Bank?" I had just left the Treasury and was working on my thesis under a Social Science Research Council Demobilization Fellowship, but I decided I couldn't afford to wait; I had to take this position.

OLIVER: What University were you working at?

STEVENSON: At the University of California, Berkeley. So I joined the Bank, and thought that I would finish my thesis there. They told me I could have time, but I realized, after I joined, that that was foolish. You had to give the time to the job or you weren't going to get anywhere, and there was too much to do. I also became progressively disenchanted with the subject of my thesis. It was on the International Dyestuffs Cartel, which I had worked on a little bit before I went into the Army and then again after the war was over in Germany. I had all the material, but I found it less fascinating than the Bank. I never finished it, and I never regretted it.

OLIVER: So you came to the Bank.

STEVENSON: I came into the Economics Department, and almost at once that big discussion with the U.S. government occurred about control of the management of the Bank. Eugene Meyer, the President of the Bank and formally publisher of the Washington Post, resigned, thereby, winning I think, the battle over the U.S. Executive Director, Pete Collado. Almost immediately after that, Harold Smith, who had come from the Bureau of the Budget and was the Number Two, died. When I got to the Bank, the staff did not quite know who was in charge; what I thought I had joined in Winter 1986 was very different when I got to the Bank in the Spring of 1947.

Things were even more different because the role of the Economics Department had been changed and considerably reduced. The country work went into what was then the Loan Department, but it wasn't until late in 1951 that I moved into work on loans and then transferred into the Operations Department. Europe, Africa and Australia in the 1952 reorganization. We were not so fussy in those days about job descriptions and we didn't have so many titles. I remember that, as a division chief, I used to try to avoid labelling staff members either "loan officer" or "economist," because I thought that staff members who were trained economists should work on loans if they had the talent and inclination. That was easier to do when the Bank was small. Jobs were less split up, and many of us were loan officers -- operations officers -- as well as economists.

OLIVER: Well, many of the loan officers, including many who eventually rose to be vice presidents, were economists by training anyhow, were they not?

STEVENSON: I think when I was a division chief I had only one or two loan officers who were not trained as economists. I always preferred to have trained economists: if you had only one man on a country, it was better if he knew something about the economics of the country than if he had to have somebody else with him. Of course, it was always better to have two people as a minimum and we usually did.

OLIVER: It has never been clear to me, since I have not had the opportunity of working in an operating department, what the relationship was between the division chief (or chief loan officer), on the one hand, and the economic advisor, on the other hand.

STEVENSON: Well, they often didn't work it out very well. The problem arose from the fact that the chief economic advisor was a staff position while the chief loan officer in charge of a group of countries was a line position. It was a line job. The economic advisors always felt, I think, a little frustrated because they weren't present when things were being worked out. It's not very easy to influence things after the outlines of an operation have taken shape. It's difficult to change the whole concept. The mission has returned and is not going back to the country to do more work on different things.

OLIVER: When you talk about the negotiation of a loan, do you mean to

imply that the loan officer for, let's say, India would see the, say, Finance Minister or the head of the central bank and that they would work out some sort of an agreement that started with some sort of a standard format that the Bank had worked out over time, and the economic advisor wouldn't even be present?

STEVENSON: He would probably not be present either in discussions in the country or during final negotiations. A country economist would be present in many of the discussions, but he reported to the division chief, not to the economic advisor. If an economic report was being written, it was written by people under the control of the division chief rather than the economic advisor. The economic advisor found it difficult to be very influential because, though mission terms of reference would perhaps have been discussed with him, it was in the field that the mission found out all sorts of things and decided what kind of a scenario it had. Once you set a plot, it is difficult. . . .

OLIVER: What are some of the major things that were negotiated in a loan contract? I suppose there is some detailed description of the project, some notion of the total amount the Bank is likely to lend, something about the interest rate and that sort of thing.

STEVENSON: There would normally not be much discussion about the exact amounts and none about the rate of interest. That would be set at the time the loan was prepared for the Board. Most of the discussion was about special covenants which had to do with the project itself. They might have to do with the financial covenants, with a company's operations; or they might have to do with, say, irrigation policy if the project was an agricultural project. There were provisions which related to the development and running of the project. There might be some discussion about matters of general policy, say, an aspect of agricultural price policy, but those matters were not usually incorporated in covenants. Matters such as price policy in general came to be discussed only with what later became known as program loans. Of course the enforcement of covenants relating to such matters is much more difficult and much more chancey. Most of the loan covenants had to do with the way the project was going to be run, how it fitted in -- if it was a transportation project, with the transportation system (if it was a big enough project to make any difference). Such covenants didn't have very much impact on the general economy. In the early days the Bank didn't bother too much with the economic rate of return in a power project. Only later did that become standard practice.

OLIVER: So the economic advisor to an operating department would be confronted with a proposed loan whose details in terms of the engineering implementation and the relation of the project to the sector were pretty well worked out before he saw the loan paper. What was the economic advisor then supposed to do?

STEVENSON: He spent more time looking at the country economic work that the department did -- the economic reports on India, say, or any of the countries where loans were being made. There, too, the mission had written a draft before the economic advisor saw it. He might have had something to do with the terms of reference of the mission, but not in every case. People who were writing the draft had done their thing

on the mission, and once the draft had been written, you couldn't bring in new topics because you probably didn't have adequate material. Very often, the economic advisor found himself on the outside looking in, criticizing and unable to have a very strong influence on what came out.

OLIVER: What would happen hypothetically if an economic advisor said, "This project doesn't seem anywhere nearly as important as another project that you haven't even talked about yet?"

STEVENSON: Well, before the mission went out, the mission would have had terms of reference. If he'd had anything to do with the terms of reference, that would have been the time to have said that. The difficulty for him would have been that he might say, "You should be lending in transportation, you should have been lending in agriculture." But it is very difficult to push that more than to make a general statement about it. Perhaps the government didn't want the Bank lending in agriculture. Perhaps the Bank's operating people felt that they would get mired down in a lot of work and it would take a tremendous amount of time to work out a project they might not be able to do to their satisfaction. There might be problems of agricultural policy that they didn't think the Bank could do much about anyway. So, it was very difficult to go beyond a general statement.

OLIVER: Do you remember any occasion when the government had its heart set, so to speak, on some project that might have appealed to the king or the prime minister or whatever and the economic advisor was obliged to say that it didn't make any economic sense?

STEVENSON: No, I don't. The Bank had, of course, relatively small resources to put in compared to all the development financing that was going on in the country. What we used to try to do, and I think we did more of this in Asia at that time than in Latin America, was to try to analyze in an economic report whether the Bank should be lending, in what general magnitude, and in what fields.

OLIVER: Priorities.

STEVENSON: Priorities, but also priorities in the sense of where the Bank could be effective in lending. In the early days, we might have thought that education or health was important, but the Bank wasn't lending in those sectors; we didn't have the possibility of analyzing projects in those fields; we lent in fields where the staff was qualified.

OLIVER: Was it just a quirk of fate that many of the engineers who came in the Bank into the early days were civil engineers who were themselves concerned, and their own experiences were, with roads and dams and power plants?

STEVENSON: Well, I think that people did think of that as a major aspect of development. Take the first EDI courses: what everyone wanted to see on a field trip would be the Tennessee Valley Authority. People did think of development in terms of civil engineering.

OLIVER: Well, back to the role of the economic advisors. Was it a function of the economic advisors to say something about the limitations a country had on its overall borrowing, in another words, its creditworthiness, absorptive capacity, and that sort of thing.

STEVENSON: Yes. The economic advisor reported to the department director as did the division chief, so the influence the economic advisor had depended a good deal on his relationship with the director. If he were to say, "Look here, we shouldn't be lending very much to this country," and could persuade the department director that that he was right, then, when the mission terms of reference would get set down, that would be reflected. If he wasn't involved at that stage, he had lost the battle.

OLIVER: Was there an acceptance early on of the proposition that borrowed funds wisely used by a country might increase the creditworthiness of the country?

STEVENSON: Oh I think so. Yes.

OLIVER: And how about the proposition that development programs where the various projects fit together in some coherent way also made the country more creditworthy and the rate of economic development greater than otherwise?

STEVENSON: Oh I think so. Yes.

OLIVER: So the notion of a development program was in no sense contrary to the idea of financing individual projects?

STEVENSON: I don't think so. As a matter of fact, the Executive Director representing India, B.K. Nehru suggested at one time that, in lending to India, it was the development plan that we should be lending for. The Bank didn't buy that; it recognized the wisdom of what he said, but, in relation to the total development program of India, the Bank resources would have been miniscule anyway. The Bank always preferred to say, "O.K. that's all right, but we do what we think we know we can do, and what we think is important, and what we think we can have some influence on."

OLIVER: A little bit later, I would like to ask a question about the role of the general economics department when the resources of the Bank were larger than they were in the early '50s, but before we get to that kind of an issue, I think we should go on with a discussion of your career in the Bank. We left you being an economic advisor.

STEVENSON: No, I was never an economic advisor.

OLIVER: I beg your pardon. Let's straighten that out.

STEVENSON: In 1952 when the Loan Department was split up into area departments, I transferred into the Europe, Africa, and Australasia Department from the economic staff. I went in as a division chief, which was a glorified loan officer for a group of countries. My first division was Scandinavia, but I quickly got transferred into Western Europe, which included the colonial territories of Britain, France, and Belgium. I stayed there until 1959. Then I moved over to be Deputy Director, or Assistant Director, in Asia and the Middle East. That, of course, brought me into Asia. That department was subsequently split up into South Asia and the Middle East. I became Director of South Asia after Escott Reid left. (Geoffrey Wilson had been Director before him.) When Mr. Woods came, I was already in South Asia. It did not contain East Asia; we only went as far east as what was then East Pakistan.

OLIVER: Well, I can certainly look up the dates later, but about when

did Escott Reid come to the Bank, and when did he leave? You were deputy under him?

STEVENSON: I was deputy under him. I was deputy when Geoffrey Wilson came to the department, which was a very big one: the whole of Asia and the Middle East. I had previously been deputy to Jeff Rucinski.

OLIVER: Then Asia and the Middle East got split?

STEVENSON: And I was on the South Asia-Middle East end. It continued more or less that way, although some of the countries moved back and forth. When I took over, it was simply South Asia: basically India, Pakistan, Nepal, Afghanistan, and Sri Lanka.

OLIVER: From '52 until sometime in the '60s, you were a loan officer?

STEVENSON: From '52 to '59, I was a Division Chief in Western Europe. In '59 I moved over to Asia and the Middle East as Assistant Director.

OLIVER: I take it only the director has the title of loan officer?

STEVENSON: No. The loan officer is the man who negotiates loans. The department director supervises several divisions which contain staff with various types of training. At that time, the divisions did not contain engineers and financial analysts. They were part of the Technical Operations Department -- the area department had people who negotiated loans (for projects) and people who did economic analysis of specific countries.

OLIVER: When you were deputy director, you were not a loan officer?

STEVENSON: No. Division chiefs and their loan officers negotiated the loans. The divisions were in departments, such as the South Asia Department. The Director of the South Asia Department reported directly to the President. He was in the same position as a Regional Vice President today.

There were probably four or five people in each division, perhaps half of them loan officers and half of them economists. (That didn't mean a loan officer wasn't a trained economist: he might very well be. The role he played in working out, say, the country economic report would vary with his trade.) If the loan officer or the division chief was a trained economist and somebody on his staff wrote a country economic report, he was going to judge it. That illustrates the problem the economic advisor had. The division chief was going to be criticizing his work. The division chief had line authority, and the economic advisor was in an advisory capacity.

OLIVER: There was no way an economic advisor could appeal to a department head?

STEVENSON: Yes, he could appeal to a department head, but that very seldom happened. In fact there were not usually very serious differences of opinion. I think it's rather that the economic advisor, by virtue of his position in the department, wasn't in a very strong position unless he had a strong position vis-a-vis the director.

OLIVER: So he was exactly what the name implies: an advisor to the division chief.

STEVENSON: No, he was an advisor to the department head.

OLIVER: An advisor to the department head? A department like the South Asia Department would have a department head and a single economic advisor?

STEVENSON: And several division chiefs.

OLIVER: Within a department there would be a number of divisions, such as the India division, run by a division chief who would have an economist or two working for him. They would have the title of "Country Economist." But each department had a single department head and a single economic advisor.

STEVENSON: From '52 to'59, I was a division chief in the Europe, Africa and Australasia Department. In '59, I became Assistant Director, or Deputy Director, in the Asia and Middle East Department.

OLIVER: When you were Assistant or Deputy Department Director, who were the department heads you worked with?

STEVENSON: First Jeff Rucinski in the Asia and Middle East Department. Then Geoffrey Wilson, and then Escott Reid. I succeeded Escott Reid as Director.

OLIVER: About what year did you succeed Escott Reid?

STEVENSON: I can't remember exactly. It was when Woods was there.

OLIVER: So it must have been early in the Woods administration. It was probably about '63.

STEVENSON: Somewhere in there.

OLIVER: Do you have any idea why Escott Reid left?

STEVENSON: I have some idea, but I couldn't document it. He was not very happy -- as Geoffrey Wilson hadn't been happy. Mr. Woods did not get along very well with Geoffrey, I think, and he left. Escott, I think, was going to be moved somewhere else, and he didn't want to go. I don't know for sure.

OLIVER: Had Escott Reid been in the Bank already for a time before he became department head?

STEVENSON: Yes, he had. He had been Canadian High Commissioner to India, and Canadian Ambassador to Germany before he came to the Bank. He came as a sort of senior advisor, but he was obviously being brought in to head a department.

OLIVER: And probably a department that related to India.

STEVENSON: Yes, because he had had a lot of experience in India.

OLIVER: Had Geoffrey Wilson had experience in India?

STEVENSON: He'd been in the British Treasury. Yes he had.

OLIVER: After Geoffrey Wilson ceased to be department head, did he leave the Bank?

STEVENSON: As I recall, he left the Bank.

OLIVER: Tell if you will about your own experiences as department head. This was by this time the South Asia Department.

STEVENSON: It was South Asia: India, Pakistan, Afghanistan, Sri Lanka, Burma. It had become somewhat smaller over the years. I think I had lost Iran by the time I took over South Asia. Earlier, it had gone west into the Middle East. Woods appointed me. I remember that one of the things I said to him when he told me was, "I never thought you had trust in me," but he said he did.

OLIVER: Did he have a habit of trusting some people and not others?

STEVENSON: He had some people whose ways of operation he liked better than others. Whether he trusted them, I don't know. As we were saying earlier, he did have a habit of doing end runs and calling different

people. I think it was part of his management practice of keeping people a little bit off balance, but that's just my own idea. Of course he was interested in the Indian sub-continent, because he had had a lot to do with it under Black. He had had to do with the private sector in India -- I think in connection with ICICI. He certainly knew the private sector in India, including the Birlas, the Tatas, and Sid Bioen Mukerjee from Indian Iron and Steel. All of those he knew.

OLIVER: But these were not the same people who were the top people in the government.

STEVENSON: No. He knew the various finance ministers -- Morarij Desai and the others. I always had the feeling that the civil service in India -- the Director of External Finance in the Ministry of Finance -- had a somewhat different attitude towards some of the private sector, notably the Mukerjee and Birles. The Tatas somehow always seemed to work more smoothly with Government. Mr. Woods, knowing these groups, was also influenced by them in his idea about India. The Bank lent for the iron and steel industry, also for coal. I think the fact that we lent was influenced by Mr. Woods's interest in that area and in the companies involved. This did not always please the government. (When I say the government, I mean the civil servants at the Ministry of Finance.)

OLIVER: So that Woods was, to some extent, pushing on the government of India projects that he thought well of but the government of India placed a lower priority on.

STEVENSON: That might be a little strong, but I think sometimes they would have rather not had us lend to Indian Iron and Steel. There was one project called Chasnall, in Bengal, which the Bank lent for and which really went very badly. I wonder if we would have got so far with that if we hadn't felt a push from Woods.

OLIVER: Was it a project which had been fully authorized, so to speak, by the project people in the Bank?

STEVENSON: The project people did the analysis. There was always some tension between the project people and the area people. Mr. Woods liked to exploit that -- "constructive tension," I think he called it. Yes, they authorized and analyzed the project.

OLIVER: What caused it to go awry? Was the economic forecast not accurate, or was the engineering feasibility off base?

STEVENSON: I think you should read the audit which Operations Evaluation did many years later. It is a good one.

OLIVER: I will seek it out. At any rate, your suggestion is that Mr. Woods had some hand in guiding the work that was being done in India and, to some extent, the work was not exactly what the Finance Minister of India would have preferred.

STEVENSON: Perhaps not, although I couldn't document that.

OLIVER: The reason I am interested in the Finance Minister is because it turned out subsequently that the Finance Minister (I think it was the Finance Minister) entered into an agreement with the Bell Mission about keeping the Bell Report confidential, and then, somehow, the summary report got published by the Indian Press. One wonders what sort of background there was in the Indian Finance Ministry for an

event like that?

STEVENSON: I don't know. There are leaks in every government, and there are always wheels within wheels. I don't think most leaks happen by accident. Incidentally, when you mention part of the Bell report being printed in the press, at least one volume of that report was <u>not</u> published, <u>at the request of the Indian government</u>. It was a report on planning.

OLIVER: I understand the Bell Report was 14 volumes altogether, one of which was a summary volume, and that was the one that got printed. But I am leaping ahead. I wish you would lead up to the Bell report.

STEVENSON: At some stage, things were not going well in India, in some ways. It was clear that all sort of price relationships were out of whack. A lot of people thought that the rupee was overvalued. There had been the exercise of the Three Wise men: Franks, Abs and I forget who the American was.

OLIVER: This was Oliver Franks? And the second man was?

STEVENSON: Herman Abs: German. And there was an American. They had gone to India. That was an exercise designed to gain support for an understanding of India's problem in the continental Western European countries as far as financial aid was concerned. I forget what year that was, but anyway I think Mr. Woods in believing there had to be some general high level approach to India (which, I think, everybody agreed with: certainly I can't recall any grave dissent) thought of getting some independent people of standing to look the situation over.

OLIVER: There was already a consortium I take it?

STEVENSON: Yes. It was in connection with that. In those days, Western Europe, outside of the U. K. and France to their own former colonies, did not give much aid in the real sense. If my memory is right, the thought was that it would be good to mobilize Western European (particularly German) financial support for India, and if we had a general mission, this might do it. There was a lot of discussion about Indian economic policies at the time, and some skepticism about some of them. When we started looking for people, Bernie Bell's name turned up. I think it was first suggested to me that Bell be the chief economist on the mission to be organized, but we were looking for some prominent figure to head it.

OLIVER: This was in connection with the Three Wise Men?

STEVENSON: No, this was after that exercise. I think there was some analogy to it in people's minds. There were discussions about who the leader would be, but nobody ever came up with anybody. Finally somebody said, "Why can't Bernie just do it?" He had left the Export-Import Bank. In a consulting firm, he had done some work for the Bank, and a lot of people knew him. They thought of him first as the chief economist, but he ended up heading the mission. The man who was the chief, if you like, was Mr. Woods. That is how it evolved that they reported to Woods -- which caused, of course, all sort of problems in the South Asia Department.

OLIVER: I suppose a reasonable question to ask is how did the South Asia Department react to having a separate mission go out to India?

STEVENSON: The mission was organized in the South Asia Department, but

it reported to Woods. The division chief in charge of India was in a difficult position and I was in a difficult position. There were conversations going on between Mr. Woods and Bernie Bell, and, though Bernie would tell us quite a lot, we never quite knew who was doing what or what the whole story was.

OLIVER: Who was the division chief at the time?

STEVENSON: Greg Votaw.

OLIVER: You suggested him before as someone I should talk to. You also mentioned the name, Peter Wright. Does he figure in this at this time?

STEVENSON: He was an economist who had long been concerned with India. He wrote most of the economic reports on India at that time. I forget whether he had become economic advisor or chief economist -- not formally, but he was the economist who had had more experience with India than anybody else at the time.

OLIVER: Did he write reports about other south Asian countries?

STEVENSON: Yes. Pakistan. He later on moved over to Latin America, but that is another story.

OLIVER: Is he still in the Bank?

STEVENSON: He has retired. He is in town.

OLIVER: What happened after the Bell Mission was appointed?

STEVENSON: Well, it went out. I think Votaw was on the mission. There was a mixture of Bank staff and outside consultants, and they did reports on various subjects. As you said, there were 14 volumes and a summary volume. As I said earlier, one of the major things which people were concerned about was the exchange rate. Opinions were, I think, divided on what the Bank should or could do about any exchange rate. Traditionally, and still today, the exchange regime is the function of the Fund. I was not personally involved in the mission. Maybe there was somebody from the Fund. I'm not sure. You'd have to look that up.

OLIVER: I've been told that the Fund, through Pierre Paul Schweitzer, met with Bernie Bell and George Woods, and the question was asked whether the Fund approved of the mission's saying something about the exchange rate, and the answer was that the Fund said, "Yes, by all means it should." Schweitzer didn't see how these other matters which the Bank was directly interested in could be dealt with if nothing was said about the exchange rate.

STEVENSON: That was the difficulty. If you were going to have a report on the main economic subjects, it would be difficult to make sense of it without saying something about that. The question was, of course, how much to do about it. If you did discuss it, how much emphasis could the Bank put upon it? In the end the negotiation was going to be a discussion on policy changes and aid. The discussion in the end, I think, got down to the question of devaluation and aid from the consortium: $900 million (Am I right on that?), which, incidentally, had to be found -- and, in the event, was not found. So many Indians felt that devaluation was forced on them and the full amount of aid promised was not forthcoming. In the end, the Bank took the heat.

OLIVER: The $900 million figure sounds like a lot to me. The Bank was pushing at that time for IDA Replenishments in the order of a $1 billion dollars a year and having great trouble getting agreement on that. So it was almost like getting two IDA replenishments, one just for India.

STEVENSON: It was aid from the consortium countries.

OLIVER: Yes, but they were the main countries of the IDA replenishment also.

STEVENSON: That's right, and in the event the amount was not totally found, as I recall. The Indians made much of this.

OLIVER: I think, to some extent, it was found by countries saying that they would give a grace period on the repayment of principal on past loans in lieu of putting up additional funds.

STEVENSON: I forget that, frankly. Everybody was trying to make it look as big as they could without giving more than they thought they could.

OLIVER: I understand. It left a bad taste.

STEVENSON: It left a very bad taste.

OLIVER: In the Indian government, partly because the $900 million was not found and partly because the devaluation was larger than the Indian government felt useful.

STEVENSON: There was a pretty big argument as to whether the devaluation would work in the classical sense. The elasticity of demand for Indian exports was very low, so, in the shortish term, there was little gain. The Indians knew that. There were those who opposed it, and those who were unhappy about somebody else forcing it upon them -- people like I.G. Patel. You might ask him about it.

OLIVER: How did you feel about it, and how did the economists in the South Asia Department feel about it?

STEVENSON: Well, I didn't think we should force it on them. I didn't think it was something that an international agency could do. To what extent it was forced on India and to what extent the Prime Minister accepted it, I don't know; but I just didn't think that the Bank should get into the position it got into, because it would reap no advantage and the Bank got tarred all over the place.

OLIVER: Did the Indian economy, in fact, have considerable difficulty after the devaluation occurred?

STEVENSON: Well, as I recall exports did not expand as fast as people hoped they might. Some didn't see <u>any</u> substantial gain. As I said in the beginning, it was pretty clear, in one way or the other, the exchange rate was out of whack, but no magical recovery occurred. Some of us, including me, didn't think there would be any magical recovery, because the Indian economy doesn't react very quickly to anything. Of course it could be said the Indian government did what had to be done and that the Bank took the heat. To what extent that is true I don't know.

OLIVER: I guess this is the time when Mr. Woods, as a person, was not all that popular in India.

STEVENSON: No.

OLIVER: Do you have any idea how he felt about this?

STEVENSON: Well, I think he knew it. On one occasion when he was in

India (this was after I was no longer in charge Peter Cargill was in charge) and things had been going badly, Cargill left Delhi. Woods was still there. Woods called the Bank's resident representative at the office, asked for Cargill, and was told that he had left. Woods is reported to have said, "Even my own side is letting me down."

OLIVER: Why was Woods there at all?

STEVENSON: I don't know. I was out of it. I don't know which particular visit it was. On the devaluation issue, my guess is that the Indian dislike was mostly a matter of pride. Most felt that something was being imposed; it looked that way and they didn't like it.

OLIVER: Is there anything more to be said about this episode in your life?

STEVENSON: As I said, I was out of it before it really came to a head.

OLIVER: You left, so to speak, before the Bell Commission report had become public?

STEVENSON: No, I left after it had become public, but while it was still subject to negotiation. I didn't leave actually: Woods found a way of getting me out of the line by amalgamating two departments, making me the Associate Director of one, and putting Peter Cargill in charge of India.

OLIVER: India became a department all by itself?

STEVENSON: No. He amalgamated South Asia and East Asia. It became bigger again. I don't think he wanted to make a bigger department; he wanted me out and Cargill in.

OLIVER: So where did you go?

STEVENSON: I was Associate Director for a little while, kicking my heels, not doing very much, and then I went over to Economics. I just waited for things to cool down.

OLIVER: Sure. Did Cargill himself have some feeling of unhappiness about Woods' negotiating with the Indian government?

STEVENSON: I wouldn't know, but I would suspect that he did. Peter was very strong willed. As a matter of fact, that's why Woods felt he was more suitable than I. When the Indians came to the Annual Meeting a few days or weeks after the South and East Asia departments had been merged, it was kind of embarrassing all around. I met the Indian delegation in the corridor, and some of them said, "You are too good a friend of India." That was what Woods thought, I believe.

OLIVER: Well, would you like to say something about other aspects of your South Asia experience? We have concentrated heavily on one incident.

STEVENSON: Yes. Some things might indicate the way Mr. Woods operated. He did like to get into operations every now and again, but it was not a very predictable thing. He sometimes appeared to act on a whim -- in many ways admirable, because he had a lot of very sound instincts but this made him difficult to work for.

He had been involved with development banks, as we said before. We were trying at that time to increase IDA operations in Pakistan. The Pakistanis were particularily interested in getting IDA credit into

what was then East Pakistan. We had lent for a small industry project in West Pakistan, and we were planning a similar operation in East Pakistan. Mr. Woods suddenly decided that we shouldn't be involved in small industry, so we had to abandon the project at a rather late stage. Mr. Woods didn't meet with us on that; it was Raymond Cope and Bill Diamond who called us in and told us. That was the day President Kennedy was shot, which is perhaps the reason I remember it. This was after a mission had gone out and had put together a project which had been in our lending program for a long time and which everyone in the Bank management knew about. We knew the weaknesses of the project better than anybody; it was difficult to get good strong financial relationships in lending for small industry in East Pakistan. We had done the best that we thought possible. We were prepared to go ahead. The Pakistanis particularly wanted the Bank to do something for East Pakistan. (We had done this sort of thing for small industry in West Pakistan). Then when we had got half way down the road in East Pakistan, Mr. Woods said, "No." Well you can imagine what that did both to Pakistan politics and to us.

OLIVER: What reason did he give?

STEVENSON: He said he didn't think the Bank should be in the business of lending to small industry. Big industry was what it should be in. He also decided at one stage in connection with development banks that we were expending too much effort on loans to small development banks. I had the unhappy job of going out to Singapore and telling the government that Mr. Woods was not going to proceed with the loan we were in the course of working out. That, I think, was one of the most wrong decisions that could ever have been made, but Mr. Woods just didn't want to have anything to do with small development banks. I thought it was whimsical on his part, but once he had made up his mind, he had made up his mind.

OLIVER: I take it that once he had made up his mind, he didn't spend a lot of time explaining how he had reached his decision.

STEVENSON: No. He just said there were some projects he didn't want to go ahead with, and Singapore was one. We later went back and made that loan -- I can't remember if it was while Woods was there or not.

OLIVER: Was it relatively common practice of his to overrule his staff, or were these relatively rare occasions?

STEVENSON: Well, of course, one always remembers these things. I can remember getting overruled on another one in connection with Nepal which again illustrates Woods' way of managing in a very personal way. We had been looking for some suitable projects in Nepal. We had sent out a general mission led by an outside consultant. One of the priority items appeared to be assisting civil aviation, improving small airstrips and things like that. Internal communications were a terrible problem. The Bank had never lent for airlines -- except when it had financed the Constellations for the French. This was obviously a touchy one. It was one where you wanted to clear every hurdle before you made any move, which I thought we did. We cleared it with Burke Knapp.

OLIVER: Was it all right with Mr. Woods?

STEVENSON: Burke said it was all right. Everybody was in line. The mission went out and came back, and then Woods decided he didn't want to get involved in airlines in Nepal. He called me up and said, "It might be a good project, but it's between India and China." There was no economic reason and there was no financial reason. I think a political reason was in the back of his mind, but he just said no. I was arguing as hard as I could. "I thought we had settled this," I said. "We were prepared to do this if the project was a good one." But he had made up his mind. Finally he said, "Look, we could do it through Indian Airlines. You tell the Indians that." Now the relations between Nepal and India being what they were, that was an absolute non-starter. I went to the India Executive Director and told him. He blanched. He didn't want even to refer it to New Delhi, because he thought it would spoil relations too much. If he ever did or did not, I don't know. The answer was: "NO." That was a case of Woods' whimsy. He woke up that morning and didn't like the idea. It just made him uncomfortable, so he wasn't going to do it.

OLIVER: Can you remember whether he made this decision in the morning or the afternoon?

STEVENSON: I think he probably made it in the morning.

OLIVER: There have been some suggestions that, for reasons of health, he made less good decisions in the afternoon than in the morning.

STEVENSON: I couldn't say when he did. It was the afternoon when I saw him, but exactly what had happened before, I don't know.

I remember another incident when we were trying to put as much IDA money as we could into East Pakistan at the the wishes of the Pakistani government. It was very difficult. We were working on loans for water supply in Dacca and Chittagong. Not long after Woods came, he called me up one day and said, "Water supply in Dacca? They can't run an elevator." We had scaled down the project a lot from the original proposal. We thought we had scaled it down enough, but in fact we had not. The project went badly. In this case, Woods instinct was quite right and the project got scaled down further later. From what I have said, I may have given an unfavorable picture of Mr. Woods, but he was certainly not always wrong.

OLIVER: East Pakistan must have been one of the most difficult places in the world to have projects go really well.

STEVENSON: Oh, it was, but other places were more so. As I told you the other day, one of the problems that the South Asia Department had was in the IDA allocation. There would be a cap on India: 40 percent or so of the total. We were judging that, in the next year, IDA would lend 60 percent of its resources to India and Pakistan, but at the end of each year we would find that the total was more like 80% --not because South Asia had introduced new projects, but because others had been slower to move. It was more difficult in Africa, for instance. The result of that was that, when credits to India or Pakistan came to the Board, a Director, representing Africa, perhaps, would say, "Look 80 percent has gone to India and Pakistan again," and we would have to take the heat for that.

As you said, lending is difficult in a place like East Pakistan.

Disbursements were slow, and there would be big discussions about the slowness of disbursements -- all of this money tied up and not being disbursed: for things like the Dacca water supply project. Woods came to the conclusion that he would do something about that, so he went to the projects staff and asked them to recommend which loan would be cancelled. Of course there was a terrible argument between the area and the projects people who proposed to cancel a part of an irrigation loan in East Pakistan. This was terribly hard for the Pakistani government, who were mostly West Pakistanis, to put across. One of my least fond memories is of having to do that. I finally persuaded Burke Knapp that we would not send a letter, but that Ellsworth Clark, Assistant General Counsel, and I would take the letter to the Pakistani Executive Director and let him handle it from there. If we had sent it to the Ministry, God knows what would have happened. Woods felt somebody had to be taught a lesson. He had to be seen by the Board to be doing something about IDA. He might have been right on that, but it sure didn't make relations with the Pakistanis easy.

OLIVER: No, nor relations with his staff who had spent time working on the project.

Well, we have about 15 minutes left on the tape. May we talk a bit about economics? You came to the Economics Department at about the time we were talking about: '66?

STEVENSON: Somewhere about there, yes. The Economics Department had been growing rapidly during the Woods' years. As I was saying at lunch, it had built up a substantial staff. It came about under Irving

Friedman, who was at a disadvantage in the Bank. He had come in as an outsider with a whole habit of life in the Fund and the U. S. Treasury dealing with exchange restrictions. I don't know whether the department was going well or not, but anyway I was asked to come over and be Andy Kamarck's assistant or deputy -- I have forgotten which it was called.

I tried to bring the Economics Department as close as possible to the operating departments, because, as I said earlier, I believed that if the economics work was to have an influence in the Bank, it had to be accepted by the area departments. So, what I tried to do while I was there was to improve relations with the area departments, -- for instance, to get people who were in the Economics Department sent on missions with area department people.

The department had grown, I think, a bit too fast. It had been given some jobs which, I think, weren't doable. A creditworthiness group had been set up to do general analysis of creditworthiness -- which was always a will-of-the wisp anyway. The area departments were not disposed to look kindly on somebody second guessing them on the creditworthiness of their countries. That I think was a non-starter from the word go, but I think it had probably come because of Irving's coming in from the outside.

OLIVER: Well, it may also have been related to the request from Mr. Woods to investigate how much additional money could usefully used by various countries -- which was a question relating to the IDA replenishment issue.

STEVENSON: I'm sure it had. The question was not a silly one, but the Bank being what it was and having grown the way it had, it was simply the wrong recipe. At that point, the relations between the Economics Department and the areas departments were not always very good or very close. It wasn't so much whether they were good or bad, but whether they were close or distant.

OLIVER: If the Economics Department does work which seems not to be related to operations -- as some of the work in the Bank at this very moment seems to be, then I suppose the operating departments will simply say, "This is not of any great use to us." I don't see any obvious reason why they would mind its being done, however. It's no worse than having the American Economics Association publish journal articles about development.

STEVENSON: That's right, but when it begins to infringe on creditworthiness or something, then it gets into what they think is their territory.

OLIVER: To play the devil's advocate: Is it possible that the operating departments had been too conservative in their estimates of creditworthiness? I come back to the proposition that if an economy is growing rapidly, its creditworthiness is getting better rather than worse; its debt can be rising, and it can be becoming more creditworthy at the same time.

STEVENSON: Of course it can. I don't think, however, that that would answer the question of whether or not the area departments were too conservative or not conservative enough. I don't think it can make anybody's calculations precise. I know it can't. I think that if you have an organization where somebody is put into a position of responsibility for a lending program, if they don't really accept the size themselves, they won't take it from the outside.

Woods used the analogy of the three legged stool --the Bank balanced on three legs: the economists, the engineers, and the loan officers. This, of course, was not a correct analogy, but it did express his feeling that he could have an economic advisor who would deal with the economy of a country. The arguments in the Economic Committee when Irving was chairman were furious. Things got really quite heated, and it boiled down to the question of who is responsible for this country: Am I, the Area Department Director, or are you, the Economic Advisor?

OLIVER: And the loan officer knew he was responsible.

STEVENSON: Well, it was the area department director at that stage. It would be the area department director and Friedman arguing who was responsible. I think in the end no line officer could accept being repeatedly overruled by someone not in a line position.

OLIVER: What happened when McNamara came and the directive went out, so to speak, that the Bank was going to increase its lending quite substantially? Presumably, the facts had not changed as to the creditworthiness of the countries or the rate at which the projects could be put in place. I would have thought that, under those circumstances, some of the area department people would have been concerned that they were being pushed even more.

STEVENSON: Yes, they were, and some of them were quite concerned. There were lot of arguments about quality versus quantity which Mr. McNamara never accepted. "There was," he said,"no decline in quality." As to whether that is true, I think it is best to read the evaluations. I don t think Mr. McNamara was wrong in trying to increase lending, but that he went too far and too fast.

OLIVER: This was Woods' objective too, was it not?

STEVENSON: A bank lends money.

OLIVER: But while it tries to be just as careful with its IDA lending as it does with its Bank lending, in a sense it doesn't have to be quite as careful -- unless its operations result in a decreased IDA replenishment. It isn't as though the Bank is going to be unable to pay its own creditors.

STEVENSON: Of course, but the decrease in IDA replenishment did happen. The U. S. government tried and tried to put a break on McNamara and finally cut the amount it put up. . . .

OLIVER: Do you think (it's pure speculation) that's primarily because the United States felt that loans were being made that were not terribly good, on the one hand, or was it because the enthusiasm for development had pretty well waned?

STEVENSON: Oh, probably both. I remember once, a long time ago, I had been up to somebody's house with Senator Frank Church and Congressman Yates from Chicago, both who of whom were strong administration Democrats and had been extremely supportive of foreign aid. I discovered that both of them had had it up to here with aid. I remember saying while we were coming home, "This is it."

OLIVER: It was apparent in many other ways: the number of students who signed up in colleges for work in development economics decreased. The number of economists who said they were development economists decreased. Today the man on the street, if he knows there is a foreign-aid program still going on, is most likely to ask, "Why." Very few people claim any more that there are great political benefits to a given country from participating in aid, whereas in the early '60s, when Woods became President of the Bank and John F. Kennedy was President of the United States, economists at MIT were writing reports about the importance of the emerging nations.

STEVENSON: Development was riding high.

OLIVER: You're exactly right. Intellectually, it was a vastly different world in the 1970s and 80s.

STEVENSON: Except I remember that Lloyd Reynolds at Yale wrote an interesting discussion paper, "Is Development a Field," which I have read often. I have often thought, and still think, that development is only a phase of economic history. What has disappeared from American economic education -- one of the formerly compulsory fields that has just disappeared -- is economic history.

OLIVER: I agree with you. Well, the case could be made that Labor Economics is not really a field, and Public Finance is not really a field. Public Finance is not really a field if you are determined only to be concerned with economic theory. There is Micro- economics, Macro economics and, possibly, International Economics, and that's about it.

The rest is institutional and/or history.

Well, what questions should I have asked and haven't asked? What things do you feel you want to say a word about? We can do another session some time, but I don't want end this one with you feeling that there are things that we ought to have talked about. I take it that you were in sympathy with the expansion of the economic work of the Bank and the expansion of the staff, but you did your best to help economists relate to the area departments. At that time, did the Project Department people see that there was some relationship between what the economists were doing and what might be useful to them?

STEVENSON: Yes. I just thought that I had at first come up through operations.

OLIVER: So did Andy Kamarck.

STEVENSON: Not so much. He was always an economic advisor. I don't think he ever. . . .

OLIVER: He was an economic advisor to the Africa Department.

STEVENSON: I don't think he was in the negotiating very often.

OLIVER: He was never a deputy director of a department?

STEVENSON: I don't think so. I thought the question was, How do you organize. Nobody, I think, disputed the work on development economics in particular countries and in general, but I think that when the economists were separated from the line of operations, it tended to leave them kind of playing second fiddle -- not getting the kind of experience that they might have got to make their work more relevant.

OLIVER: Sure.

STEVENSON: One division in the Economics Department which felt very strongly on that score was Domestic Finance, Stanley Please's division, which worked extremely well. It always got its people on missions. When McNamara came, he didn't want that. He wanted and Chenery wanted somebody reporting to him. So the link between Economics and Operations was further weakened, and the relevance of economic work became less in my view.

OLIVER: Chenery, to some extent at least, wanted people who were doing the kinds of work that they might have done for him if he had still been at Harvard.

STEVENSON: I think so. His major interest was country models in the same way as Anne Krueger's main interest is trade. As you say, he tended to have them work on country models. Then you get to the question of whose model is relevant. Chenery did not get into arguments as much as Friedman did on the economies of particular countries. He was reporting to McNamara. That was what McNamara wanted, and I would guess that Friedman had a bit of difficulty dealing with McNamara.

OLIVER: I understand. Just to finish the story of your own work at the Bank, did you spend the rest of your career in the Bank in Economics?

STEVENSON: No. I was looking for an overseas assignment. I wanted to get out. I had once turned down the India office, because it didn't come at a time when my kids could get the education and attention that I thought they needed. I was asked to go to Bangladesh at about the

same time. I didn't think that was a good one for me. I thought, in the end, you're going to have to get out. There was a fuss in the Economics Department ---- this was after Andy Kamarck had left -- when Hollis tried to reorganize it again. Two of us, David Henderson and I, both said, "We aren't going any further." David, the Director of the Economics Department at that time, hadn't been with the Bank long, and he decided to leave. I had invested too much in the Bank for that. Hollis had offered me another assignment in Economics, and I said, I didn't want to do it.

I finally negotiated myself into Iran. It was just after the first oil crunch, which resulted in an enormous domestic inflation in Iran. I had negotiated my terms with the development bank there in the spring intending to go there later in the year. By the summer prices had practically doubled on all the things I was going to be buying. I talked about it to the man I was to be working with. After looking at houses in Tehran, it was obvious that a tremendous chunk of my salary was going to go on housing. The manager of the development bank had limits to what he could do, because he couldn't make a favorite of an outsider. So we, in the end, said, "Look we'd better call it quits before this starts." So I came back, though I didn't know what I was coming back to. "All right," I said, "if I don't like what I see when I come back, I will retire." When I came back and was asked to come over to EDI, I felt, "Well, why not?" I enjoyed it, and I stayed until mandatory retirement.

OLIVER: I think that is a good conclusion for our conversation. It has been fascinating to me, and I appreciate your time and courtesy very much.

STEVENSON: Thank you very much.