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**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**LEWIS T. PRESTON**

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**By: John Lewis, Richard Webb, Devesh Kapur**

## FOREWORD

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

*Lewis T. Preston*  
*February 10, 1993 - Verbatim*

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

**PRESTON:** . . . whether the authors will have a suitable World Bank bias or not. [Laughter]

**LEWIS:** Well, as you know we've--you mean these authors or the . . .

**PRESTON:** No, no. That . . .

**LEWIS:** The other, the group we've invited? We thought it would be useful to get a set of views of the Bank from outside, and we . . .

**PRESTON:** Absolutely!

**LEWIS:** And we think it's well to preserve the . . .

**PRESTON:** But I just don't know some of the, some of the people.

**LEWIS:** Well, it's a mixed lot. That—we think they're all--it's a good set of writers and observers. All of them except Mahbub ul-Haq have not had experience in the Bank. They're--we're finding their product pretty variable as it comes in but I think without exception interesting. And we've been working pretty hard at--we're trying not to steer them--and we think they shouldn't be steered. We do raise lots of questions and try to facilitate their access to materials. And I think it's--I think it's . . .

**PRESTON:** Well, Mahbub is a perfect example, actually, because to the extent I've been exposed to him and read some of his stuff, you know, I just don't necessarily agree with . . .

**LEWIS:** Well, I know. A lot of people don't. A lot of people don't.

**PRESTON:** And I think he's been unfair to the Bank, frankly.

**WEBB:** Yeah, we don't, we don't agree with a lot of what he says, but I, I really think that book will have, will be taken as a whole because they'll all be together and there are quite different attitudes to the Bank and different angles, so that I doubt that any one piece there will . . .

**LEWIS:** I think Mahbub's got to shape up and produce more, a more, a somewhat more serious piece than so far he has let us see.

**PRESTON:** It's slanderous! [Laughter]

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<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 [ ].

**LEWIS:** Well, it's--it's pretty loose. And that's--I've known Mahbub quite a long time. He's capable of very good stuff, I mean, whether you agree with it.

**PRESTON:** Absolutely. He's a very good writer.

**LEWIS:** He is a good writer, and he is a good economist--he was. And so we're pressing pretty hard in his case to see if we can get more out of him. We've got our fingers crossed.

**PRESTON:** Well, that's, that's my sense of what he's—it's not . . .

**LEWIS:** Okay. Let me . . .

**PRESTON:** See, may be I have been here long enough to get defensive. [Laughter]

**LEWIS:** Well, that was going to be--we sent you a list of questions and I don't know whether you're interested in those or--and how far we can get through the list. I'd like to start off with one preliminary that has to do with the fact that you've been here now for a while, and we haven't heckled you so far. One [*inaudible*] you have a chance to have had a quite experience in institution and I'd like to ask you how expectations of the job sort of matched up with the experience so far. Have there been any real surprises? Things that you've found weaker or stronger than you expected, whatever . . .

**PRESTON:** I think the pleasant surprise has been the quality of the staff, the dedication of the staff. You know, I was always enormously proud of the quality of people with the J.P. Morgan and Company, but these people have two or three more degrees and four languages more and--but the thing that strikes one, I think, is their complete commitment to the institution and their concern about quality. I mean at the--in the private sector that the function of the chief executive is normally to emphasize quality and to establish loyalty, and there the characteristics of this staff is such that there's nothing to do. [Laughter] That's wonderful. Very nice.

**LEWIS:** Yeah, yeah. That's a great important statement, actually, because did you know that bunch of economists and political scientists now have sort of a public choice theory of public sector behavior that assumes that the motivation is the same as self-serving motivations. You don't find that?

**PRESTON:** I don't think that is true. I think it's also—I mean, you've asked about surprises. It's more difficult to run a multinational bureaucracy than it is private sector enterprise that was considerably bigger. And the response times, the inability through compensation to send signals, the fact that the turnover rate is about 4 percent, and its, its ethic of concern for being a humane player and--has inadvertently impacted the skills mix in an adverse way, I think.

**LEWIS:** Can you spell that out a little?

**PRESTON:** Well, I think that if--if the complement has been X number of agricultural economists in 1983 when agricultural lending was 35 percent of the lending, I'll bet you 25 cents that you've still got the same number of agricultural economists when agricultural lending was 17 percent of

the institution. And it's not--it's inadvertent, an organizational issue where if you--if you are sufficiently decentralized in your personnel planning, you lose an agricultural economist, you rehire one. And if you don't examine the skills mix from the center, you don't examine the skills mix because there can be surplus skills in a particular region or whatever. And so that was one of the reasons I recentralized the personnel function after I got here.

**LEWIS:** But now you get that sort of inertia, I would think, in almost any bureaucracy, maybe even a private bureaucracy, if you didn't have a tight budget constraint. I mean that--and . . .

**PRESTON:** Well, you've driven me to talk about the budget. And the budget here was the most screwed up function I ever saw any place in all my experience. It was this budget that Bob [*Robert S. McNamara*] put in to generate lending, and it was measured in man-years and coefficients. And I wasn't smart enough to understand it, so we've gone to a dollar budget. [Laughter] And instead of taking a 13-month budget cycle, which obviously discredits the process to the staff, we are hopefully down to three months now.

But that's an interesting comment of yours, John. Can you go back and tell me precisely what you meant?

**LEWIS:** Well, I mean that I think all organizations have a kind of a natural desire to survive. There's an inertia, a "steady as you go." I thought first when you made your comments you were saying that you had a bunch of people who were so committed to the rightness of the courses being steered that they were reluctant to make changes.

**PRESTON:** Oh, I would support that.

**LEWIS:** There's a lot of that?

**PRESTON:** Oh, sure.

**LEWIS:** None of that.

**PRESTON:** The inertia.

**LEWIS:** But I think any--there is a sort of a--people hate to chop off jobs and put people out of work, and also it's led to most managers like to have more rather than fewer subordinates. And the way that you cope with this in the private sector, or in the public sector if it's coped with, is to have a hard or tight budget constraint, I mean, so that you have to make choices. If you're going to change programs and add things, you've got to subtract some other things. Now, this institution has happened almost inadvertently to have--to be a gold mine in a small way in terms of generating its own income. And so the Board [*of Executive Directors*] tends the budget with some interest, but nevertheless I've had a feeling that there is really quite a cushion of liquidity there that . . .

**PRESTON:** Well, we have to turn off this machine for that.

**LEWIS:** All right.

**PRESTON:** No, no, no, no! I just want to tell you that the Board doesn't understand the budget--or didn't understand.

**KAPUR:** Was that a big difference when you came, the difference in dealing in the private sector with a board as opposed to this institution?

**PRESTON:** That's a whole--let me finish this story. I mean, with respect, I don't think I agree that that's how organizations change. Organizations welcome change because they have leadership, and in the private sector you're driven to change or you're busted. And that doesn't happen. But the sense that you have to change to survive is evident, and the fact that you should welcome change, that the place is going to be a more vibrant and exciting place to work, doesn't exist in a bureaucracy.

I'm sorry. I didn't mean to interrupt. I just wanted to just finish that.

**WEBB:** No, but if you could just--you seemed to--you're agreeing with what John was suggesting. Isn't that *[inaudible]*

**PRESTON:** No, I'm not agreeing that the budget is the controlling factor in change. In fact, the budget can be just the reverse.

**WEBB:** But in a private sector . . .

**PRESTON:** It can be an inhibiting factor to change. But, you know, the thing that fascinates me, this place never turns down an assignment.

**LEWIS:** Right, right.

**KAPUR:** Exactly.

[Laughter]

**PRESTON:** I mean, I find that odd!

**LEWIS:** You say in the private sector you can go bust, that's really what I sort of meant by meant by a tight budget constraint. I thought that . . .

**WEBB:** Which doesn't exist here.

**LEWIS:** Yes, it doesn't exist here. [Laughter] [all speaking at once]

**WEBB:** But, I'm sorry, that--that really fascinates me. It then poses the question of what does make the institution change if it isn't the budget?

**PRESTON:** Well, I haven't been here long enough to answer that. I—I . . .

[Reading] “Why--why did it take them so long to recognize the importance of environmental issues?”

I'm not really ducking the question. I'm just am fascinated because I don't yet understand it. And the idea that there was a, there was somehow a conflict between environment and development must have gotten into the, into the mind of the institution somehow, and it took a long time for them to be persuaded that that--in fact, the opposite was true. In fact, they got persuaded, alas, through I'm afraid a lot of external pressures on them.

**LEWIS:** I think my pop answer to that would be that just about the time that the environment became salient issue in sort of, the realm of public discussion, in the early '70s, about the turn of the decade, McNamara was socking in so many other goals that there was almost a competition for attention to various minorities. Then, if you remember, the whole environment thing got just oversold--limits of growth and all that--that there was a tremendous hoo-hah, and then it became quite fashionable to think that it had been exaggerated a great deal. And so people who were charging away, presumably, on poverty reduction and smallholder agriculture and whatever could kind of . . .

**PRESTON:** Yeah, but I mean I would have thought that smallholder agriculture was the first place you would have suddenly recognized, “My god!”

**LEWIS:** Yeah.

**PRESTON:** Sustainable development.

**LEWIS:** I know.

**PRESTON:** If they--if they're slash . . .

**LEWIS:** If you wanted to use DDT [*dichloro-diphenyl-trichloroethane*], you know, I mean, there's that kind of thing, that you can get up growth rates . . .

**PRESTON:** Well, that's the latecomers' problem. [Laughter] I don't know, but it fascinates me, fascinates me.

**LEWIS:** We put on our list of questions we'd like to ask you about your impressions of the process of selecting the president, your own experience. You, of course, recognize why that's so important to history because this is almost by definition a “president-strong institution.” The president makes a hell of a lot of difference in this institution, and therefore, who he is and how he's selected is very important, and the fact that it had always until now been an American very much narrows the set and sort of skews the whole thing. And so in each case we're very interested in how the selection occurred and any sort of reflections you have about the process.

**PRESTON:** Well, I would have thought the process was totally disorderly. I mean--I think the--if you look at the previous presidents, there is this, apparently a view that investment or commercial

banking is a useful background. Nobody apparently recognizes that development is a very different, development lending is very different from either investment banking or commercial banking, or if they do, they don't pay any attention to it. And again that's really what I--one of the reasons that I changed the organizational structure shortly after I got here. The place is much too hierarchical, and particularly if you're bringing in political hacks from the outside who don't know anything about development. So I think it's a good idea to have the president surrounded by people who knew something about development.

**LEWIS:** Yeah, yeah. And how is it, that relationship--how is it working, you and the Managing Directors?

**PRESTON:** I think it's working well, and I think the decision time is accelerating. There is a—there's a level of knowledge at the top of the institution that I think is essential to running it. I think we're doing fine without some of those dukedoms or baronies or whatever the hell they call them.

**LEWIS:** Did you know you were a candidate to be proposed by . . .

**PRESTON:** God, no. I was on my way to ski and ultimately to look for a summer house in the south of France when I got called in London. I guess the London—the time change isn't something the White House operators understand, so my standing at Claridge's improved after having spent 25-odd years staying there. No, I was not seeking post-retirement employment.

**WEBB:** Did you talk to some other presidents, past presidents?

**PRESTON:** You mean before saying yes?

**WEBB:** Yes, or immediately afterward when you were thinking of how you would--what you were facing?

**PRESTON:** Well, I knew something about the institution, of course, because of the debt crisis and the inevitable involvement of the--no, I talked to people whom I had known in the debt crisis whose judgment--what I really wanted to know was whether you could make a difference, make a change, make the institution more responsive and therefore make a contribution that was useful. To my surprise Jacques de Larosiere and [Paul] Volcker and, I guess, Gordon Richardson all said yes. My instinct was to not say yes.

**WEBB:** Did you see a particular challenge with the Bank that you were coming here and you would to take up some particular change that the Bank needed to go through or to face up to new circumstances? Was there something that stood out in the agenda?

**PRESTON:** Well, I just had the worry that, like the British foreign office, they get the political leadership, then they send them out on the road. And whether in a relatively short time you could make a difference in a bureaucracy such as this one, I wasn't at all sure--and I'm still not sure. But I'm god damned sure going to try! [Laughter]



**WEBB:** But it wasn't as if it were a crisis situation where you were coming in to deal with something that was clearly--it was not as if you were someone or someone going into IBM now?

**PRESTON:** Thank god! [Laughter] It wasn't that bad!

**WEBB:** Or--I see.

**PRESTON:** No, it was more a sense of drift.

**WEBB:** But, for instance, the debt crisis. Did you see that as mostly over now and sort of the Bank going back to its more traditional objectives or as something that still needed to be worked through and would be number one on the agenda?

**PRESTON:** Well, I think that the new membership has broadened the objectives of the institution. I mean, the transition of the Eastern bloc and the former Soviet Union—I mean, ultimately it's the alleviation of poverty because they're very different issues than were faced in Latin America and indeed in Africa. We told Peru to put in a payment system: “You know what to do.” *[inaudible]* It's a different challenge for the Bank. And as a consequence makes it a much more interesting place. I mean, there clearly has to be regional focus, regional emphasis on various issues and skills, the skills required. I don't think we know too much about the engine. I'm very serious. I mean, we can say, “You ought to have a payment system,” but we don't know how to install it. I mean, we can get people, we can get consultants who know to install it, but it's not in the capacity of the people that are on the staff. Very different challenge. It's wonderful, wonderfully exciting, I mean, intellectually.

**LEWIS:** I'd like to ask you some more about the priorities on your agenda, internal, outside and the inside, but you brought up Eastern Europe, and it reminds me of an issue that we've been puzzling about, and that's the haste and partialness or completeness of economic reform in former socialist states. There's the Jeff *[Jeffrey D.]* Sachs kind of “big bang” solution, and there are those that argue for gradualism. And you have in the Bank, I think, a tendency toward the Sachs type approach in Eastern Europe, although not completely. You have a very different line of policy in China. And I just wonder how--do you see that as inconsistency? Is it because the world is different in different places?

**PRESTON:** We have to remember, don't we, that they're their government programs.

**LEWIS:** Yes, sure.

**PRESTON:** Not World Bank programs.

**LEWIS:** Of course, of course.

**PRESTON:** I think if we want to be effective in China we'd better be sure it's a government program. And, you know, you get frustrated by your own expectations when things aren't moving fast enough in Russia or China, but these countries are very different. And the size and complexity

of the problems in Russia--I mean, it may have been useful to engage in the intellectual problems of Eastern Europe, but it's not necessarily a guide.

**LEWIS:** In Russia?

**PRESTON:** Mm-hmm. And elsewhere. I think that a standardized response to these issues will get you nothing but trouble, and in part this reflects the institutional and human resources to implement what we're talking about. I think the further you get from Moscow, the less capability you've got. For 70 years--or 770 years--they concentrated everything in the center, but those skills that are so important are not readily available in Central Asia. And so when I get particularly frustrated or wake up in the middle of the night, I think maybe the most useful thing we're doing is training the trainers. And it's surely going to take a lot longer . .

**LEWIS:** Yeah, yeah.

**PRESTON:** . . than everybody anticipated.

**LEWIS:** Now, if we're thinking about your sort of substantive priorities, Eastern Europe and Russia and the former Soviet Union have been thrust on the Bank by events, and it's been a big change.

**PRESTON:** Well, that's the universal membership that really changed it.

**LEWIS:** Yeah, and environment was sort of thrust, as you were saying, on the Bank from outside, has become now, we think, quite thoroughly internalized, but you have been very articulate about the sort of renewed emphasis on poverty issues. Are there other things that you would think of as your particular hallmark so far in terms of substantive program?

**PRESTON:** My hallmark. I mean, trying to get the organization structured to perform, to implement the policies that the Bank articulated was a contribution, but that's about it. I mean, the human resources and the sustainable development and the private sector were central departments that didn't exist, and those were the underlying themes of the institution.

**LEWIS:** Picking up the poverty thing for a minute, there are cynics about who say that when you make poverty a sort of an essential element of every structural adjustment operation, poverty alleviation or attention to cushioning the disadvantaged against impact, and you also make it as sort of you have to get a sort of anti-poverty clearance for every investment loan and the WDR [*World Development Report*] '90, before your time, sort of merges poverty policy with growth policy, that it could be that you're sort of declaring victory on poverty, that it is sort of in . . .

**PRESTON:** Well, that's the only way we're going to win!

**LEWIS:** Right! Okay. [Laughter] How do you assure yourself that the manual and so on is really penetrating the operations of the organization.

**PRESTON:** I don't want to do that.

**LEWIS:** You don't want to do that!

**PRESTON:** I tell you, the operational directives around here drive me absolutely crazy. Nobody uses the brains god gave them. They have to have a directive for every . . .

But, again, let me say that the country focus that was in that '87 reorganization I think was right, and we tried to reinforce that. And if you make the country assistance strategy review the--which is discussed with the Board--the road map for what you're going to do in the country, you don't have to have the 57 flavors in every loan. It's the complexity of these loans that has gotten this place in difficulty. And if you can agree a strategy for whatever country, sure, you're going to deal with the population problem in one loan and the women in development or whatever it may be in the course of the lending program over the next year or two, but you don't have to have those issues confusing the ownership question, et cetera, et cetera, in every damn loan. And the borrower feels that way, which is much more important. And, you know, we weren't very good about listening to our client, and you know, these multiplicity of directives and themes and everything that made these loans much more complex than they needed to be. And, you know, if we can simplify that, and with this road map of the country strategy, I think we're going to have a much better record on implementation. And that's important.

**LEWIS:** That's an important message. Is that--it seems to me it's quite different than your predecessor's, at least in his time. Many things about your interests and so on seem to be very much in tune, but that was a time when the adjustment loan got to be an umbrella for everything under the sun, 56 conditions.

**PRESTON:** Crazy! Crazy.

**LEWIS:** Has that been voiced to the institution, this position?

**PRESTON:** Oh, I think there's no question that--certainly the regional vice presidents, I think, are totally on board and agree that this is the right direction.

The other thing that I'm unhappy about, by the way--we're off the record . . .

**LEWIS:** Okay.

**PRESTON:** . . . was that there was a lot going on in the institution that was corrective to this implementation problem, and this [Willi A.] Wapenhans report blew up. And, of course, it was never designed to be a public document, or at least when I commissioned it, it wasn't designed to be a public document. And so there was a lot going on in terms of best practices and self-correction, this kind of thing. And I'm afraid the critics of the Bank don't recognize that, and it's unfortunate.

**LEWIS:** The report leaked?

**PRESTON:** Yeah, actually before I had a chance to read the final draft! [Laughter] I was at the annual meeting, and I went to the press conference, and this guy stood up and said, “What have you got to say about the Wapenhans report?”

I said, “Not much because I haven't read it yet!” Good god! [Laughter]

So that's the new thing to live with, I'll tell you, coming from the private sector. This place leaks like a sieve--as poor old Larry [*Lawrence H.*] Summers found out!

**KAPUR:** You had mentioned that you already had some impressions of the Bank before you came because of the involvement in the debt crisis. What was that? How did you see the Bank's role when you were at Morgan?

**LEWIS:** You mean in the debt crisis?

**KAPUR:** Yeah, yeah.

**PRESTON:** In the debt crisis?

**LEWIS:** Yeah.

**PRESTON:** I think the commercial banks, industrial and commercial banks, felt that the Bank was very slow to react and that the leadership was grabbed by Jacques de Larosiere and, you know, that the Bank was slow to join the party. I don't think that's fair criticism. I think that the largest shareholder was so worried about the political charges of bailing out the banks that they, with the help of the other members of the G-7, discouraged the Bank from too active a role. And that was one issue.

I think the second one was that until you have macroeconomic programs in place that the Bank's role could not be asserted in terms of the sector adjustment lending. And then it really wasn't until the [*James A. III*] Baker initiative, subsequently the [*Nicholas F.*] Brady initiative, that they kind of looked at the Bank and said, “Where the hell have you been?” when they, in fact, had been restraining it. [Laughter] And I think it gave the public a confused view when, in fact, the Bank was responding to the largest shareholders. Now, that may be absolutely crazy, but that's my perspective. You probably have a better perspective.

**WEBB:** [Laughter] Well, not really. We were so caught up in our own problems, and our contacts with the major players sometimes—well, they tend to be so focused and guarded on both sides, the only real conversations I think we ever--I ever managed to have were with Volcker, in the sense that one could expand and think about the system problem.

**PRESTON:** Well, he--I mean, the three players were Jacques, Paul, and Gordon. And Paul made an enormously courageous decision in telling the banks that they could put new money into the countries and that the credits were improved. Without that statement the banks by and large were locked because their boards of directors were scared to proceed. And we were, we were lucky at Morgan, but without that from Paul, there was, there was going to be a banking crisis--there would

have been, I think. That was enormously courageous, and several of his colleagues thought he was going to get killed politically for it. He wasn't. It was very brave.

**WEBB:** When was that?

**PRESTON:** It was very early, very early. I think initially the Mexican one--where everyone's said liquidity--that was different. By the time Brazil had come along, I think that's when Paul really crossed the bridge.

**LEWIS:** And that already was perceived then to be a solvency problem?

**PRESTON:** I think by then there was a recognition that this liquidity was something a little more permanent and a little deeper.

**WEBB:** Looking back now, a lot of people think that the Bank could have handled this in a better way. I find it very hard to get anyone . . .

*[End of Tape 1, Side A]*

*[Begin Tape 1, Side B]*

**WEBB:** . . . that more damage was done to everyone than was really necessary. But have you ever thought that? Have you--do you--can you, have you ever thought of specific alternatives to the way it was handled?

**PRESTON:** Well, I'd have been very happy if the Bank had bailed out the commercial banks. And that would have solved my problem. I don't think it should've. And the--I mean, it's like a little bit like Jeff saying, "Now, you ought to put more money into Moscow." If I had 20 billion dollars, I wouldn't know where to put it, frankly. And I think that these things evolve over time, and I think the role that the Bank played may have been a little late but it, in terms of the structural adjustment, was really heroic. Once the macro positions were stabilized, I think they moved in and did a damn good job.

**WEBB:** One of the things that's really is striking in looking at the history here, some of the memos, talking to some of the people, was the atmosphere in the Bank. In '83, '84, '85, even into '86, it became, unusual for the Bank--the Bank's very open, intellectual, tolerant, even leaks and so on--but in that period the Bank became rather different on this question. It was more disciplined and it was very quick to discipline suggestions that the Bank could be doing things differently, and in particular, the whole question of debt relief was, was killed. The slightest--it was completely off limits.

**PRESTON:** Well, that was G-7.

**WEBB:** What was?

**PRESTON:** I think it was the G-7, myself.

*Lewis T. Preston  
February 10, 1993 - Verbatim*

**WEBB:** The G-7?

**PRESTON:** I think. I mean, you've got to ask somebody who was here. But as I talked to the Treasury as an outsider in those days-- I mean, the bailout of the banks was the big issue. When Baker recognized that without growth this was a nonstarter, they suddenly turned to the Bank and said, "Where the hell have you been?" [Laughter] And--but you've got to talk to the boys that were here. That's just me from the outside. It may be all wet.

But the other thing I think happened--I don't know whether we're on or off, but I'd like to make this point. I think it lost the intellectual leadership to the Fund. Jacques was putting together the packages.

**WEBB:** It's interesting because that's a shared, that view, by quite a few people. But if you look at the numbers, the Fund put in money in '82, '83, but the Bank was already putting in more money than the Fund very soon after.

**PRESTON:** But it was the intellectual leadership that moved across the street, I think. I mean, you know, watching various problems in countries, I think probably including yours, I didn't call the Bank and *[inaudible]*

**LEWIS:** Has it stayed there? The leadership?

**WEBB:** It's interesting.

**PRESTON:** Well, I think actually what happened, certainly in Latin America--and Mr. *[inaudible]* knows better than me--but I think as the process matured, the role of the Bank in the, through the adjustment lending and through the sectoral lending, reassumed its natural role. But there was a gap, I think. But you shouldn't ask an outsider like me about this. These are just . .

**LEWIS:** We ask a lot of people!

**PRESTON:** . . these are just the impressions that I have as a . . .

**KAPUR:** You just mentioned the role of the sort of G-7 in this. How do you see their role in sort of governance? You must have reflected on that as larger than governance, a question of this Institution.

**LEWIS:** You mean the governance of the Bank?

**KAPUR:** Of the World Bank and the role of the G-7.

**PRESTON:** My mother told me always listen to my shareholders. And I think—I think part of the dynamics here is to--a feeling that, by the Board, the management is not necessarily responsive on policy issues. Conversely, the management thought the Board was too intrusive. And probably both are right.

**WEBB:** Could we come back to the Wapenhans?

**PRESTON:** Sure.

**WEBB:** Because the way you referred to it now made it sound as if it were not very much your own initiative, but our perception had been that it had been one.

**PRESTON:** Oh, it was my own initiative.

**WEBB:** It was?

**PRESTON:** But, I mean, I didn't know how else--what I wanted Willi to do was take the OED [*Operations Evaluation Department*] job, by the way. He turned that down. I said, "Well, okay, but you're going to do this report because we have to have an explanation of why the quality of the portfolio has steadily deteriorated over the last . . ."

And in his wonderful, intellectual way he god damned well found out. There was nothing, I don't think, in the Wapenhans report that wasn't in the OED reports over time, if you read them carefully, but it--I think it had to be put together and kind of delivered as a challenge to the institution about where we'd gotten off the, where we'd gotten off the track. The fact that the economic returns at 10 percent have nothing to do with development impact is god damned unfortunate because it's been misunderstood externally, and that I feel very badly about because it's a bum rap on the Bank, I think. But, as I say, it wasn't meant to be a public document. I was a new boy; I didn't realize. But it's a fascinating document [*inaudible*]

**WEBB:** Yesterday we talked to one of the authors of one of the--what we thought were one of the especially interesting background reports, Mr. Husain, Tariq Husain. Just speaking personally, I think for all of us, continually fascinated by thoughtfulness, even wisdom, of so many people in the Bank.

**PRESTON:** Absolutely.

**WEBB:** Objectivity.

**PRESTON:** Absolutely. Not easy. Terrific. But the thing that--I guess it wouldn't happen at a [*inaudible*] institution—I mean, if they listened to the customer, the client, the shareholder, whatever the hell these people are, they would realize what was happening. And the customer understood the motivation in the Bank better than the people in the Bank, naturally.

**KAPUR:** But is that an intrinsic problem to every monopoly, that you listen best to your customers?

**PRESTON:** Well, I can tell you they better not get caught doing it when I'm here. [Laughter] You'd better listen to your customers or you're not going to be in the financial services business very long. And all this bullshit they talk about comparative advantage, then they ignore it! [Laughter] It's [*inaudible*]

No, they're great. It's wonderful fun.

**WEBB:** Yeah. Actually, there's something we continual to remark on--it's the starting point for economics, that you can't do everything. It's the first lesson that you're always communicating. But we have the impression that it was McNamara in particular who kind of brought in this culture of refusing to face up to the fact that you couldn't do everything, that there were trade-offs.

**PRESTON:** We haven't turned down a request since I got here. I don't know how many more CGs [*consultative groups*] that's meant. And I'm not questioning whether we should or shouldn't do them. I mean, this is a use of time and resources. They're in projects that, statistical projects for the UN, power studies on shutting down those nuclear plants, and nobody said no!

**WEBB:** By the way, I hope you don't say no to Peru! [Laughter] I was just down there with Rainer Steckhan, and he mentioned that he was hoping that they would both--some kind of a consortium. We need it.

**PRESTON:** Yeah. But it's fun, this place, I'll tell you.

**LEWIS:** It sounds like it. I think we've taken up a good hour of your time this time. If we could, probably should quit while we're . . .

**PRESTON:** While you're ahead?

**LEWIS:** Yeah.

**WEBB:** And our job is fun.

**PRESTON:** Yeah, what I would have thought--I would have thought the place was sufficiently open . . .

**LEWIS:** That's right.

**PRESTON:** . . . and that you'd probably get so much that your job is much more difficult than you thought it was going to be.

**LEWIS:** Oh, by order of magnitude! Yeah, yeah. And this guy is very good at digging out all kinds of elusive materials and interesting people for us to interview that has enriched it very much, but, my goodness.

**WEBB:** I--I'd hate to be doing this in the Fund, just as a way of making this sink in, the difference. There you wouldn't know, really, what was going on. Things aren't written down. Motivations are more hidden.

**PRESTON:** Well, you know--you know JPM, my previous firm, went through so many investigations but they never kept any records. A terrible tragedy. But they'd get up before



[*Ferdinand*] Pecora every 40 years or something. And so literally as young people, we came in the bank, you were not: “Those memoranda for the files are death in the afternoon. Don't do it!”

**WEBB:** In Spanish . .

**PRESTON:** So-and-so's told me in confidence. [Laughter]

**WEBB:** . . the first thing one is told when one goes into government in Peru, the Spanish saying is, “Paper sings.”

**PRESTON:** Mm-hmm. That's what, that's what the firm found out. But it's--in terms of history . .

**WEBB:** Yeah, it's terrible.

**PRESTON:** Have you guys got any contact with the Bretton Woods effort?

**LEWIS:** Yeah, we've had a little bit. Charles Taylor has met with us, had lunch with us one time. Recently he and his colleague were coming to see me at Princeton--he was also coming to see Peter Kennan--and he got the flu or something; he didn't come. And Devesh went to a meeting of the steering committee or something?

**KAPUR:** Right, the first one which they had, but it was just chaotic. I mean, the Japanese, the Europeans and--it was just terrible.

**PRESTON:** Well, I have the same worry, frankly, about the essay stuff here. It's going to be very uneven.

**KAPUR:** Right. And I—at least, I thought they had virtually nothing on the Bank. It was very Fund-focused and virtually . .

**PRESTON:** Well, I hope so.

**KAPUR:** . . nothing on the . . .

**PRESTON:** [*inaudible*] I told Michel [*Camdessus*].

**LEWIS:** No, they have narrowed their outline. They've got some stuff on the Bank, but it is still . .

**PRESTON:** I have seen it, but it's a Fund.

**LEWIS:** It's mostly Fund. Yes, if I were you I'd hope very much it stays that way.

**PRESTON:** But I kind of thought it was odd because of what you guys are doing. I kind of said, “Look, it's duplicate.” But they already had the bit in their teeth.

**LEWIS:** Yeah.

**WEBB:** He's quite an enthusiast, Mr. Taylor, who's driving that thing. I want to make an effort to keep in touch with him.

**LEWIS:** He's got one theory which is that a lot of African countries need a renewal of the colonial period, in effect.

**PRESTON:** That would be popular! That will set us back another 50 years! That's very funny!  
[Laughter]

**KAPUR:** They are quite strident, actually.

**LEWIS:** Yeah. Thank you very much indeed.

**PRESTON:** All right. Well, I probably raised your level of . . .

*[End of Tape 1, Side B]*

*[End of interview]*