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A CONVERSATION WITH BERNARD BELL, II

WASHINGTON, D.C.

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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Robert W. Oliver

OLIVER: Mr. Bell, it is a great pleasure to have you back and to make up for lost time in this adventure. I wonder if you would begin by explaining something of your singular relationship with Mr. McNamara at the time of Indonesia.

BELL: Maybe I should start by going back to March of 1968, just prior to the time that McNamara took office as President of the Bank. I was at that time Deputy Director for Economics in the Projects Department. I hadn't travelled anywhere for several years, and Mr. Aldewereld and Mr. Chadenet, who were my chiefs there, kept urging me to take a trip somewhere, anywhere, and deal with several matters that were outstanding with a number of countries. I agreed to do that. I said, among other things, that I would like to go to Indonesia, which I had last visited in September of 1963.

I went to Indonesia for four or five days and, in the course of that four or five days, the Indonesian economic team was discussing the outlines of

a program they planned to present to the president and the parliament. They asked me and Bill Gates to sit in on discussions with them, which I did. (I will tell you more about Bill later.) On my last day there, they said that they would like the Bank to help them by establishing a resident staff in Indonesia which could help them in formulating an overall program and developing specific projects -- in general serving, in effect, as part of their staff. They asked me if I would present that as a formal request to the Bank. I said I would. They then asked me if I would be willing to head the staff myself. I said that it wasn't possible for a whole variety of personal reasons.

I came back to Washington and wrote a memorandum which presented their request. This memorandum was scheduled for discussion by the Loan Committee, then the top body of the Bank. In the course of that discussion, all members of the Loan Committee except two were enthusiastically in favor of meeting the Indonesian request. The two who were opposed were Burke Knapp, who was the senior vice president of the Bank, and myself -- for entirely different reasons. He was opposed because he thought that it might detract from the responsibility and authority of the Washington office, and he was opposed to that. I argued against it on two grounds: first, that Indonesia had such a terrible reputation at the time as a place to live that none of the good people on the Bank staff would be willing to go, and, unless the very best people in the Bank went, it would be a mistake because the Indonesian team would be far superior and wouldn't learn anything from them; and second, that the Washington bureaucracy would try to prevent the staff in Indonesia from exercising the independence and authority it would need to be effective.

Burke said that he thought that he and I should have a private discussion with McNamara and tell him why we had opposed the majority recommendation to the committee. He would let me know when we could do that.

I had never met McNamara up until that time. A few days later Burke called me and said, "We don't need to have a discussion." He had already had it himself. I said, "Well, O.K." And assumed the proposal was dead, though probably for the wrong reasons. Several days after that, Mr. Aldewereld, who was the head of the Projects Department, called me and said, "Mr. McNamara wants to see you at 6:00 this afternoon." I asked what about. He said he didn't know. So I went. That was the first time I had met McNamara. He told me that he was very much in favor of the recommendation which the Loan Committee had made, that a resident staff be established with wide responsibility. He wanted me to head it and asked if I would. I said, "No," and he said, "I want you to think it over, but just offhand without any commitment on your part, could you tell me some of the reasons."

I told him that I could think of about 8 reasons offhand, four of which were entirely personal and four related to the way in which the Bank operated. He asked if I could tell him what they were, and I mentioned that on the personal side both my wife and I had elderly mothers who were ill, and we didn't think that this was a time we wanted to be away. To which he said "Well, you and your wife can make as many trips back here at Bank expense as you feel are necessary to take care of that." That answered that.

Then I said another reason was that I had a daughter who had just completed her first two years of college in the Washington area and wanted to transfer to Boston University because she was interested in working with

handicapped people, especially handicapped children -- either physically or psychologically handicapped, and Boston University had a very good faculty in this area and a very good curriculum. She wanted to go there, but her academic record was not particularly brilliant. The first reply from Boston University to her initial letter of application had been somewhat discouraging. I felt I wanted to stay here and help her actually to get in.

McNamara (this will tell you something about him) picked up the phone and said to his secretary, "Get me Eunice" -- that was Eunice Kennedy. She did. I could hear his end of the conversation and guessed the other end. He said, "Eunice, I know you are very busy packing because you and Sargent are leaving tomorrow." (Sargent Shriver, her husband, had just been appointed Ambassador to France.) "But there is something I want you to do. There is a little girl who wants to get into Boston University and her chances don't look very good." There was some more conversation. Then he hung up and turned to me and said, "Well, that's settled, she's in". That was McNamara. I can't recall what my other two personal reasons were. In any case he had an answer for those.

Then I said, "On the side of the of the Bank, the Bank is a highly Washington centralized operation. I know from experience as Deputy Director of the Projects Department that many departments in Washington consider it their religious duty to ignore or contradict any recommendation made by field staff, and that would continue and be a constant struggle, which would be a waste of time." That was the point at which he said, "I have dealt with bigger bureaucracies than this one and I can take care of that. I will rule that no one in the Washington office can ignore or controvert in any way any

decision or recommendation of the Jakarta office without my personal approval." I said I thought that might work. It certainly did. There were to my memory only two or three instances in four years in which anybody in Washington went to him to try to get his approval of their disagreement with the resident staff. On one of those occasions he agreed with them, and on the others he did not. In any case it scared them sufficiently so that they rarely ignored or disputed our recommendations that went to him.

OLIVER: Why was Indonesia such a special case?

BELL: That's an interesting question about which I have speculated quite a lot. I haven't wanted to ask McNamara that directly. For one thing, the Bank had totally neglected Indonesia. The Bank's only connection with Indonesia was that, sometime in the late 50s, it had sent an economic mission to Indonesia which prepared in Washington a report which was duly put into the files. I don't know whether anybody ever read it; certainly nothing came of it. McNamara felt that this was the fifth largest country in the world, anxious for economic and social progress, and that the World Bank couldn't ignore it.

I've also speculated that there is a connection between his interest in Indonesia and his feeling about Viet Nam. I hesitate to say this, but I will to you. I've said it to almost no one else. In part I think there was a kind of expiation on his part for what he now regarded as his earlier mistaken views about Viet Nam. Viet Nam was a very painful thing for McNamara. He clearly changed his mind at some point about what the US should be doing vis-a-vis Viet Nam. It was that change of mind which, I believe, led to his leaving the US government and becoming the President of the World Bank.

During his defense department tenure, among other things, his children, strongly disagreeing with US Government policy on Vietnam, refused to speak to him, which didn't help.

Indonesia was clearly one of his main interests when he came to the Bank and this influenced his decision to establish a resident staff in response to Indonesia's request, although I'm quite sure he had this in mind even before the request came. He had been President of the Bank for approximately one month and it was almost the first action he took aside from routine ones.

When I mentioned another one of my organizational objections, namely that I thought many good people in the Bank would not be eager to go to Indonesia, . . .

OLIVER: May I stop you for just a minute to ask whether or not McNamara, in your opinion, had already decided that he had to have a directly reporting resident mission in Indonesia, or was this very much tied up with you, yourself?

BELL: I think, although I have never confirmed this with him, that he had in fact decided, even before the Indonesia request came to him via the Loan Committee, that the Bank needed to establish a resident staff in Indonesia, that the Bank knew nothing about Indonesia, and that the only way that it could effectively assist Indonesia was with a staff of people on the ground. Whether he had also decided that he would strengthen the authority and responsibility of that staff by making it report only to him, I have no idea. He may have had some such idea, but I am sure it was strengthened by my saying that it would be extremely difficult for the staff to be effective when all

the departments in Washington would consider it their religious duty to disagree with anything that was recommended and would consider it an insult to have any authority placed in that staff.

OLIVER: Was this particularly true of the Projects Department or was it across the board?

BELL: It was across the board.

OLIVER: Well, I interrupted you.

BELL: I was saying, I think, that I thought it would be difficult to assemble the quality of staff that was needed, partly because many people would be unwilling to reside in Jakarta and partly because their superiors would refuse to release them for that purpose. He said, "I'll take care of that. I will rule that anybody you want to go on that staff and who wants to go goes, no matter what his department head thinks. Nobody can stand in the way of that." I said I thought that would help on that score. In any case, within about a week after that first discussion, I agreed to go, and then proceeded to select staff. Why McNamara asked me, I really don't know. He may have heard from many people around the country in universities and foundations, that one of the few people in the Bank who had any working experience within Indonesia was me. That may be the whole answer to that. I had had experience with Indonesia earlier, dating back to December 1949.

OLIVER: Well, and you had the experience in India of having run the Bell Mission. This was a very special case also.

BELL: Yes, it was. It was really quite a different kind of assignment. The India one was to make what George Woods hoped would be a more thorough study of the economic problems of India than had been done up to that time. In the

Indonesia case, McNamara was thinking in operational terms. For the Bank effectively to assist the Indonesians, there had to be a staff on the spot. I think he was quite right about that.

OLIVER: Well, how did it work out in practice?

BELL: My judgement is that it worked extremely well. We were fortunate in that the economic team [the economic ministers] in Indonesia consisted of people, some of whom I knew and had known for some time and some of whom I didn't know but who did know that I had worked for several years as an advisor to Dr. Djuanda, who had been the prime minister of Indonesia for some time in the latter years of the Sukarno regime. He was called the first minister because Sukarno liked to call himself both President and Prime Minister, but Dr. Juanda was the Prime Minister. Dr. Juanda was a man who was tremendously able. He was highly respected by the young economists in Indonesia, including the entire economics faculty of the University of Indonesia who were totally proscribed by Sukarno: everybody in the government of Indonesia was forbidden to talk to those people.

Unknown to Sukarno though, the general who was in charge of their staff college, the equivalent of West Point, had these people lecture at his staff college. He kept it quite secret. Djuanda had a number of times suggested to me, when he had put problems before me, that I discuss my thinking about it with these people in the faculty of the University, but keep it entirely secret. "Never go near the University. Meet them at night somewhere." I had started to do so when the end of that advisory period came in September of 1963 with Sukarno's declaration of "confrontation."

It may be of interest that early that year (1963) Dr. Djuanda had asked

me and a man Bill Gates. Bill was on leave from his position as chairman of the Economics Department at Williams College, and had earlier been on my economic staff at the U.S. Export-Import Bank. He is unfortunately no longer living. He was one of the best persons I have ever known and my closest friend for some years. Bill was heading a five man staff that I had put there to work on project preparation, under a contract which AID was financing, to prepare a program of economic action. The country was going down the drain, inflation had reached a rate of several thousand percent per year, official exports had dwindled to almost nothing, and the economic situation was deteriorating from day to day. He asked us to prepare a comprehensive program of action which the government ought to undertake. He said, "You prepare the program and give all the economic arguments. I will add the political arguments, and I will then present it to Sukarno."

We prepared a rather lengthy memorandum, perhaps 20-25 pages, after a weekend up in the mountains during which we argued bitterly with each other much of the time. We finally agreed on a program. We came back to Jakarta and Djuanda invited the then Chief of Staff of the Army to join us in going over the memorandum word by word, which we did. It took a week. An important part of the program, incidentally, was a drastic reduction in military expenditures. I had asked Djuanda, "How are you going to get the army to accept that?" He had said, "They will do whatever I suggest." He was quite right. They had tremendous respect for him, and they were very worried about what was happening in the country and to the country. He presented the program to Sukarno who said, "O.K., go ahead". That was in May or June of 1963. First steps were taken, I can't recall exactly which they were, but I

believe they related to sharp changes in the trade regime and were astonishingly effective in a very short period, a period of a couple of months.

OLIVER: I'm sorry, I'm troubled by the dates here, 1963? This is before the Bell Mission, before you went to India?

BELL: Yes, it was. Let me just straighten that out.

OLIVER: O.K.

BELL: In 1960 or '61, I can't recall, I got a telephone call from people in AID saying that they had been trying to persuade the Indonesians for some time that they needed help in project preparation. Dr. Djuanda had agreed with their suggestion that a combined staff of engineers and economists be set up in Jakarta, on the condition that I supervise that staff and that I also act as his personal economic advisor, with a proviso that I was to make no reports to AID on what I did in that last capacity. The AID people had said that that last proviso was totally unacceptable, but the then US Ambassador in Indonesia had appealed to Averill Harriman, who was Assistant Secretary of State for the Far East at the time, and he had ordered AID to agree to those terms. They did in 1961 or 1962 as I recall, and we set up that staff which, as I said, was a five man staff headed by Bill Gates.

OLIVER: You were employed by AID at the time?

BELL: No, I had left the Export-Import Bank in 1953 and was a partner in a private economic consulting firm. AID asked us to undertake this contract to assist the government of Indonesia jointly with an engineering firm who supplied the engineering members of the five-man project preparation staff.

In September, 1963, when under Dr. Djuanda's direction the government

had begun to execute the program which we had agreed on, Sukarno made a speech in which he decreed confrontation with Malaysia, etc. He made that speech one night. I came to the office, Dr. Djuanda's office, the next morning. He was looking very dejected. He said to me, "You might as well go home. You'll be wasting your time if you stay here. It's finished." Being a polyanna, I said, "We can salvage some of this, can't we?" "No, it's finished. Don't waste your time, get on a plane and go home." I did. Three months later Dr. Juanda was dead. The official story is that he died of a heart attack in the course of a party at the Hotel Indonesia. His daughters, whom I know, continue to tell me that that was no heart attack, that he was poisoned. I suspect, they are right. Sukarno and his then foreign minister, Subandrio, knew that Djuanda was potentially their chief rival. They knew what I knew -- that the top generals in the army had asked Djuanda whether, if they took over to try to save the country, he would run the government for them. I knew what his answer had been, which was, "If you fellas an ever agree among yourselves and you can convince me that you can command more than your secretaries, I'll do it."

OLIVER: So the whole restructuring plan went out the window?

BELL: Yes, totally.

OLIVER: This helps explain why McNamara requested you to take the job. You were very interested since you already had prior experience in Indonesia.

BELL: Exactly. I was very much interested in Indonesia and I had been since my first encounter with it in December 1949. I was then the chief economist of the US Export-Import Bank. On the day the Indonesians and the Dutch signed the final agreement terminating hostilities and recognizing Indonesian

independence, the Indonesian delegation called Bill Martin, then President of Ex-Im Bank asking for a meeting. The next day he called back immediately agreeing. Two members of the delegation, Djuanda and Sumitro flew overnight to Washington and there applied for a loan of \$100 million to help finance rehabilitation and the beginnings of development. Bill Gates, and I worked like mad to produce in a few days a learned report on the economic situation and prospects of this newly independent country and ended it with a recommendation to the Board of Directors that the loan be made. It was, very promptly and for three years thereafter we did our best to provide the assistance and choice the government of Indonesia requested, much of it unrelated to the Ex-Im loan.

I have gone in to all of this by way of helping to explain why I thought the resident staff operation, which McNamara started, was very successful. I mention all this to support one of the points I was going to make about why we had been successful, which was that from the very beginning the Indonesians trusted this staff. They knew me or knew that I had worked as a confidential advisor to Dr. Djuanda for whom they had tremendous respect. They thought that anyone whom Djuanda wanted as his advisor was a good man for them.

OLIVER: Including the army?

BELL: Including the army. We had a good start for that reason, and I managed, with the help of McNamara's decree that nobody could stand in the way of somebody going to join the resident staff, to get a good staff. We had, including myself, 10 professionals on that staff. From the very beginning we worked really as part of the government; we were, among other things, a

principal means of communication between one ministry and another. One of the notable things at that time (to some extent it is still true) is that the various ministries and departments in the government of Indonesia didn't talk to each other very much. We were, among other things, the channel of communication.

OLIVER: They're all too busy. They all have five jobs!

BELL: Many are very jealous of their own turf. That's less true than it was at that time. I'll give you an example. I can't recall the year, it might have been '69 or '70. A question arose in the government about an important issue, which was whether the payments by foreign oil companies under their production-sharing contracts with Pertamina, the national oil company, belonged to Pertamina or to the government. An interdepartmental committee was set up to discuss the question. It met and talked but got nowhere. Quite independently of that Widjono recognizing that the issue had to be decided between himself as the leader of the team of economic ministers, and the General who headed Pertamina asked me to negotiate the question with General Ibnu Sutowo, who was the head of Pertamina and with whom, for some reason which I don't understand, I had a good relationship. We used to meet several times a week and talk about various things. We both smoked Lucky Strikes. I think we were the only two people in the country who did.

Long before the committee reached any conclusion General Sutowo and I, with Widjono behind me all the time, had reached an agreement on what the arrangement should be. It was incorporated into what was called the Pertamina Law. At that time, it provided that sixty percent of the contractor profits, oil company profits, should go to the government and anything over that which

was contractually due to be paid by the companies to Pertamina, would be retained by Pertamina. At that time most of the contracts provided that the companies would pay sixty-five percent of their profits to Pertamina. It was 60 of that 65, not 60 percent of the 65, but 60 out of the 65 which, under the new law, went to the government. At the point where General Sutowo and I reached agreement, he said, "Why don't you tell Widjono that I haven't seen him for quite awhile. He and I ought to have lunch one day." I went back to Widjono's office, told him, and he said, "That's ridiculous. He and I haven't ever talked to each other in our lives." Which was true and illustrates the lack of communication in the government and our role in establishing it.

OLIVER: I assume that you induced some kind of devaluation along the way?

BELL: Yes. I might say, incidentally, and this is important, the IMF had a resident representative at the time our resident staff began its operations. In fact, he had been there for several months by that time. He, too, was very much trusted and used by the Indonesians. He and I worked very closely together. We were in continuous discussion with the Indonesian economic team about what they should be doing in their trade regulation, exchange rates, fiscal and monetary policy, etc., etc.

There were several devaluations in the period that we were there, '68-'72, and there was a unification of exchange rates. Several rates were in use at the time in '68 when we started. There was a unification; there was a movement, as I recall, to a single rate of 420 rupiah to the dollar. That rate prevailed until, I believe, 1978 when there was a one time devaluation from 420 to, I think it was, 620. I was very much involved in that one. It was just shortly after I retired from the Bank. (I retired at the end of

January, 1977.) I still remember that for a period of months, all through the Spring of 1968, everybody was writing memoranda to the economic ministers of the government on the subject of devaluation. Some of that advice was solicited, some was volunteered. They were not all in agreement either on the question of whether there should be a devaluation at all, or how much of a devaluation.

I was one of those who wrote such a memo. Discussions went on for months during that spring. I came back to Washington at some point during the summer, then went out there again, I think it was early in the fall of '78. The first person I went to see was Minister Ali Wardhazna, Minister of Finance, the first afternoon I was there. He greeted me by saying, "Well, we've made the decision. It's what you (and some others) recommend; only five people in the country know about it, but you have to write a memorandum telling us why we did it." I said, "What do you mean? You know why you did it. You've been talking about it for the last five months." "Yes, we've been talking about it so much that we are confused. We're going to have to make a statement to the cabinet, to the parliament, and to the public; and you have to write it." So I did write it and they used that statement.

OLIVER: What sort of projects did you induce? Did you use any program lending?

Perhaps you should tie this to the rescheduling of the debt?

BELL: Well, starting at the beginning (by the beginning I mean the assembly of the resident mission staff in Jakarta which took place for the most part in September of 1968), we began work on quite a number of fronts. Some were our own ideas, which we suggested to, and discussed with, the government

ministers. Some were their ideas, which they suggested to, and discussed with us. I should emphasize that everything we did was in agreement with them. We didn't undertake any independent actions and neither did they. We worked as a team, in complete cooperation. They didn't always accept fully every recommendation we made. They made their own decisions on everything -- as we thought appropriate. For the most part, those decisions were decisions that we in the course of discussions had agreed were the proper ones. Sometimes they were not. For either political or other reasons, they sometimes felt they couldn't go ahead along certain lines. They may even have thought that our economic reasoning was bad at certain points, although I can't really recall any of those. If they did think so, they were too polite to mention it.

One of the first things we did was to recommend to McNamara and the Board of the Bank that what was called the "Technical Assistance Credit" be established. The purpose of the Technical Assistance Credit was to finance the employment of experts. It was to finance the employment of individuals or firms to make studies of particular problems -- studies and recommendations for action. That proved to be enormously useful. The arrangements were very simple in that all that was needed to allocate some part of that credit was agreement between myself and the Minister of Planning.

OLIVER: And McNamara?

BELL: No, he delegated that. Just my agreement and the agreement of the Minister of Planning was enough. Of course I reported to him about what we agreed, but his approval wasn't required. Of course the approval for the Board of the creation of the credit was required, but the particular uses of

the credit were decided entirely in Jakarta. We started a long series of studies. At that time it was much less expensive than it is today to undertake a lot of studies. We got quite a lot done. There was a considerable focus on our part initially on agriculture, involving the rehabilitation of irrigation facilities which had been very poorly maintained. They had in many cases gone to ruin in the preceding twenty years.

OLIVER: Including tea as I remember.

BELL: Some of our first looks at the rice production problem were modeled on the program we had recommended in India. It involved first of all the physical rehabilitation of irrigation facilities. A much larger reliable supply of irrigation water was provided. Second, there was a program of development and distribution of improved rice varieties, which the government executed very well. Then there was a program for the distribution, at subsidized prices, of fertilizer necessary for expanded production, and the guaranteed purchase by a government agency of rice at a minimum price so that that price was always available to the producer no matter what the private traders were offering.

The combination of the improved irrigation water supplies, of greatly improved availability of higher yielding rice varieties, fertilizers and insecticides, and guaranteed attractive prices resulted in immediate increases in rice production. Seven or eight years ago, despite the increases in rice production, Indonesia was still importing rice. It was the world's largest importer of rice. Today and for the last several years, Indonesia has had a surplus of rice and has actually exported some. What it amounts to is that they have more than doubled rice production in about 10 years.

OLIVER: Why was it necessary to have subsidized fertilizer?

BELL: In order to make the use of adequate quantities of fertilizer attractive and feasible for the growers.

OLIVER: Was the subsidy removed later?

BELL: No, the subsidy has existed until this last year. I think it is finally to be removed in the budget for the coming fiscal year. It was set in conjunction with a guaranteed purchase price for rice. The use of the fertilizer and other improved inputs was made attractive to farmers. That's really what accounts for the tremendous increase in production. As you know rice is the staple food in Indonesia.

OLIVER: Is there tariff protection? I am curious as to whether or not India protects its rice against Indonesians and Indonesia protects its rice against Indians.

BELL: I frankly am not sure about the answer to that, but I am sure that in neither case is import restriction significant. India, too, has succeeded in increasing rice and wheat and other staple commodity production very significantly, although the Indonesian case is outstanding in the world. A couple of years ago, as I recall, FAO gave some special award or honor to President Suharto in recognition of what they achieved in the rice production program.

OLIVER: What other projects come to mind?

BELL: Well, we concentrated quite a bit on the improvement and expansion of electric power generation, transmission, and distribution facilities as well as transport and education facilities. The electric power facilities were in a terrible state in 1968. The Dutch during the colonial period had never

invested very much in the development of electric power facilities. As I recall, in 1968 the total generating capacity in the country was about 600 megawatts, which was a ridiculously inadequate figure. Together with the government of Indonesia, we sponsored a whole series of studies looking toward the expansion of the electric power system. We went through a very difficult period when the economy was expanding sharply and urban growth and power demand growth was very rapid. I think it was in 1972 that there was such a shortage, because new facilities had not yet come into operation, that there were continuous blackouts in Jakarta and elsewhere for an extended period of time. Subsequent to that time, the facilities for generation, transmission, and distribution were very much expanded and are now very satisfactory.

OLIVER: Were there any industrialization projects under IFC or under the Bank?

BELL: Yes. Probably the outstanding project, at least outstanding in my memory (which doesn't necessarily prove anything,) was the expansion of the original Pusri Urea Fertilizer Plant. That plant had been the subject of a feasibility study in 1957 or 1958, a feasibility study which, by the way, was done by the consulting firm of Cass, Bell and Associates and finally resulted in a contract in 1961, 1962 or thereabouts with an American firm which built this plant. It was a plant designed to produce 100 thousand tons of urea per year. At the time that we made the study in the late fifties, there were only 2 such plants in the world, both in the United States, and they were the basis of the project design in Indonesia.

In the early '60s, the contract was finally signed and the plant built. It was from the beginning quite a success. I recall very well that in

our feasibility study we had predicted that it would take 18 months for the plant to reach full capacity production. That prediction was based on the experience of the two plants which had been built in the year just prior to that in the United States. In the Indonesia case, it took exactly two weeks for the plant to reach full capacity production. After about two or three months of production, however, they had to shut it down, because, contrary to the recommendations we had made in the feasibility study, they had made no provision for the transport of the product to Java where it was most used and most needed. But they then quickly made such arrangements and the plant resumed production. It worked like a charm ever after.

One of the first things the resident mission studied in 1968, early 1969, was the expansion of that plant. One of the early loans of the Bank was to finance a second stage of the Pusri Fertilizer Plant. When it first came into operation in the late 60s, it produced an additional 100,000 tons a year. That plus the 100,000 tons from the original plant was Indonesia's total production of urea. It's total production of urea today is something over a million tons.

OLIVER: Were there any essentially program loans?

BELL: No, there were not. All of the loans without exception in that period were project loans to finance specific projects. That, as I told you, did not by any means preclude extended and continuous discussion with the government of their overall economic policies and program. There was extended discussion of those and agreement on them. Action was taken by the government pursuant to that agreement, helped by the economic assistance that the Bank was providing in the form of IDA credits, which, in 1974, were substituted for by

Bank loans and by long term, very soft credits by others of the ICGI.

OLIVER: Speaking of the ICGI, perhaps you would care to recount the bargaining that took place under Widjoyo.

BELL: You may be thinking of a time I recall -- I think it might have been in the year 1973 or thereabouts -- when the then Dutch Minister, who was Chairman of ICGI and who represented one of the more or less leftist parties in the Netherlands, was very concerned with political matters and human rights in Indonesia. In the course of an ICGI meeting, he made the statement that it was a terrible thing that Indonesia was still holding hundreds of people as political prisoners on some island out to the East and that members of the ICGI should keep that in mind when deciding how much assistance they were going to provide to the government of Indonesia. At that point Mr. Widjoyo, Minister Widjoyo, who was Chairman of the Indonesia delegation, rose from his seat and said, "If there are any political conditions to be attached to aid, we may as well terminate this meeting." Whereupon the Chairman backed down very rapidly.

OLIVER: I have more in mind the issue over debt rescheduling in which Widjoyo stood firm.

BELL: Yes, that was another instance of the ability of the Indonesians, which surprises many people, to be quite firm and tough in negotiations. The possible rescheduling had been the subject of examination and study. The members of the Paris Club, the Indonesian creditors, had retained Dr. Herman Abs, who had been President of the Deutschebank in Germany, to make a study of the problem and come up with recommendations. He did and a meeting was convened in Paris (this may have been in late '68) to discuss his

recommendations. The meeting was attended by all Indonesia's Western creditors. There was no participation by the Soviet Union and other East Bloc creditors, although Indonesia was substantially indebted to them, the Russians having provided primarily military credits but also some others.

OLIVER: The football stadium?

BELL: Yes, there was that, and there was the steel mill at Krakatau at the western end of Java, the steel mill which never came into operation at that time. I have forgotten the amount of the indebtedness to the Soviet Union, but it was 1 or 2 billion dollars. In any case, after the presentation of Dr. Abs's recommendations, the Chairman of the Paris Club stated what the Paris Club was prepared to offer to the government of Indonesia by way of rescheduling of the outstanding debt. It wasn't precisely what Dr. Abs recommended, but it was more or less modeled after it.

When the Chairman completed his presentation, Mr. Widjoyo, heading the Indonesian delegation, said that those terms were unacceptable and would not be workable. They did not provide sufficient relief to Indonesia, which was just beginning to restore its exports and its foreign exchange earnings. The Chairman (I can't recall his name, a Frenchman) who headed the Paris Club said that that was the final offer that the creditors could make, whereupon Widjoyo stood and said, "If it is then there is no use prolonging this meeting; we may as well all go home. We, the government of Indonesia, can not accept those terms."

The Chairman backed down pretty quickly and said, "Maybe we should recess for an hour so the creditors can discuss the matter and you can further consider our offer." We reconvened an hour later, and the Chairman announced

a new proposal by the creditors which was far more generous and which the Indonesians then said they could accept. And that was agreed.

OLIVER: I'm anxious to get you into Africa, but before I do that, let me be sure that I have covered all the major bases. What sort of things would you like to tell me about your Indonesian experience?

BELL: I think what I would add (if my memory were better, I probably would add a lot more) is that certainly throughout that initial four year period the cooperation between the Bank and the government of Indonesia, between the Bank staff represented by the mission in Jakarta and the government represented by the economic ministers, was in my view absolutely perfect. There were no questions of any significance which were not discussed by the two, thoroughly and exhaustively discussed, and in most cases agreement was reached on what the proper course of action was. In no cases, did the Bank, as represented by the resident staff, say that these agreements were conditions to further credits. In all cases the governments of Indonesia made the decisions and then took the actions.

There were no cases in which conditions relating to the over-all economic program were imposed. That is one of the striking differences between the way that whole program in Indonesia developed and the way in which many of the structural adjustment loans of today are made. In many of the structural adjustment loans, there are conditions. In many cases it is reported that those are conditions which are not really very much to the liking of the borrowing government and which are imposed by the World Bank or the Fund or both. That was never the case with Indonesia. In that connection, I'm told (I can't vouch for this directly) that the US

representatives on the Board of Directors of the Bank, at the time of the last non project loan to Indonesia, objected to the fact that there were no conditions attached. The Bank staff explained that there were no conditions because the Indonesians had already taken the actions which were desirable. I'm told it was a little difficult for some people, including the US government, to understand.

OLIVER: Including devaluations from time to time?

BELL: Yes, devaluations, and the series of actions over the last two years in which piece by piece the Indonesians have reduced the restrictions on imports, eliminated import and trade monopolies, reduced regulations, simplified regulations, all of which had results which are apparent as you look at the growth of non oil exports in the last year or two, non-oil exports which, I believe in 1987 for the first time ever, exceeded exports of oil and gas and which were far above any earlier years. I believe this reflected in good part many of the changes in the trade regime and the regulation of production and transport and of foreign and domestic investment.

OLIVER: Would you care to comment on the wonderful story you told about McNamara and the reorganization of 1972 and then about the period when you had the opportunity to compare East Africa with East Asia?

BELL: Well, let me do that briefly if I may.

OLIVER: Surely.

BELL: In 1972, the decision was made to have some change in the organization of the Bank and to establish five or six regional offices. In that connection at the time in Jakarta as director of the resident mission, I was asked one Friday evening by telephone to be in Washington for a meeting at 9:00 on

Monday morning. I asked what it was about and was told I would be informed about it when I arrived. At 9:00 Monday morning (I had arrived the night before), I went to McNamara's office. He told me of the reorganization plans and said that he wanted me to be the vice president in charge of the east African region. I said, I would prefer not to do that, that I wanted very much to continue to be the director of the resident staff in Indonesia. This was entirely truthful; I said that I knew nothing whatever about Africa and wasn't really very much interested. Therefore, I was saying, "No."

Mr. McNamara said that he thought I shouldn't be precipitate about this; I ought to think about it and come back to his office at 11:00 with an answer. I went back at 11:00 and said that I had thought it over and the answer was no. Whereupon, somewhat to my surprise, he said, "You don't really have a choice. You can either accept the position, or leave the Bank." I said, without a lot of thought, I would leave the Bank. Whereupon he said, "Well, will you take the position as a personal favor to me?" To which I could only say, "If you put it on that basis, I can't say no."

OLIVER: Have you any idea what was behind this? Was it just that the time had come to go back onto a country basis and get out from under the direct line to McNamara, or was it something more than that?

BELL: I've never actually asked Mr. McNamara directly why he wanted this. He said that he felt that the Bank had rather neglected East Africa and that a much more vigorous program in relation to East Africa had to be undertaken. He thought that I could do it. There may have been other reasons. It may have been that the complaints about the way the resident missions operated, complaints from departments in the Bank, were cumulative and had something to

do with it, but I don't really think so. I did ask subsequently whether he planned to continue to have the resident mission in Indonesia play the same role that it had played in the past. He said, "Yes, with one difference, that it would report again to just one person; not to him, but instead to the vice president in charge of the Asia region." That was the way it did work. So that the resident staff really did continue to function just about as it had, and it continued that way for many years.

OLIVER: So in any event you went to East Africa.

BELL: Yes, I did. I started to try to learn something about East Africa, which I knew nothing about and which I found was quite different from Indonesia. For that matter most of East Asia and the Pacific were different from East Africa for many reasons some of which I'll mention. The governments of the countries of East Africa were not undertaking well planned, well conceived, and vigorously executed programs of development. There were in most of the East African countries even fewer people with any experience, education, or training of the kind required for development. There were other reasons. If I knew more about East Africa, I'd probably understand some of them.

OLIVER: Well East Asia is a relatively lush place basically, and East Africa is a relatively barren place I would have said.

BELL: Yes, and no. Some of the countries of East Africa are rich in mineral resources.

OLIVER: Not in agriculture. You couldn't have doubled, I would have said, production in ten years in East Africa.

BELL: No, I don't think that would have been possible, but I think

significant increases in many of the countries would have been possible. In Tanzania, for example, where, with the best of intentions and greatest degree of interest on the part of the leaders of the government in development and economic progress, they were unsuccessful. They had, I discovered in my one brief visit there, failed quite completely in attempting to increase agricultural production by establishing collectives and cooperatives.

I recall very vividly a trip in which, together with the Tanzanian Ambassador to the United States, I visited several cooperative farms and we found that there was a lot of modern equipment and machinery just sitting around unused. At mid-day there were a lot of quite healthy men asleep in front of a storehouse which was pretty empty. The kinds of incentives that had been established were simply ineffective. Tanzania was one of the places where the country was attempting to do something, but I think it was misconceived.

In the brief period that I was involved with East Africa, one of the places I found most interesting was Zaire. I went there once when I decided that the consultative group on Zaire ought really to meet in Zaire rather than in Paris. That was after I discovered that the last time it had met in Paris, representatives of the Zairian government hadn't even appeared. I thought if they were to be interested and to be involved in an effort, the best thing to do was to have a meeting in Kinshasa. McNamara and others agreed that was a good idea. There were some objections from some people but they didn't prevail.

We had that meeting, and it was attended by the high officials, economic officials, of Zaire. Immediately subsequent to the meeting, I had a

meeting with President Mobutu together with his personal assistant, who next to Mobutu was the most powerful man in the government. Mobutu was a very striking personality. He started the meeting, after the exchange of greetings, by saying, "No doubt you've heard lots of things about me from your American and Belgian friends, including that I am an alcoholic, a dope fiend, a terrible womanizer, one of the richest men in the world, and one of the worst crooks in the world. Don't believe a word of it; none of it's true. I like to drink once in a while, I like a woman once in awhile. I've never taken dope in my life and my personal fortune is quite modest."

He then said, and this is interesting, "You know you spent quite a lot of time at this meeting you've been conducting discussing this very large, short-term debt which we have recently accumulated in Europe and debating the question of what could be done about it. You have also been discussing how stupid we were to incur that debt. Let me tell you why and how we incurred that debt. We had some urgent needs which we couldn't meet, and just at that point the Arabs came to me and said, If you will break relations with Israel, we will lend you (I've forgotten the figure, \$10 billion dollars, or something on that order) "payable at the end of 20 years with zero interest. That's all we had to do to get it. So I went on nation-wide TV and radio and said, The Israeli's are our very good friends. They have helped us enormously, but the Arabs are our brothers. So we are breaking diplomatic relations with Israel." He said, "As soon as I had done that, I got in touch with our Arab friends, and they began to talk about a loan of \$500,000 payable in 5 years. In the meantime, we had, in the expectation of this big loan on very favorable terms, put it all in short-term debt to banks in Europe." I was brash enough to say

to him, "That is easily remedied. Reestablish relations with Israel." He said, "You know, we may do that." He didn't until some years later. He has now, but that was perhaps a small illustration of the kind of person he was.

OLIVER: I don't quite see how \$500,000 dollars payable within five years would have exacerbated the debt all that much.

BELL: It didn't, but in the meantime they had borrowed a lot more from European banks.

OLIVER: Overborrowed perhaps.

BELL: Oh yes, much overborrowed. He said, "In the expectation that the big loan we were going to get on very favorable terms from some of the Arab countries would bail us out and repay the short term debt". I thought at the time that he was genuinely surprised that, after he taken the action they urged, they hadn't come through on what he said they had promised.

OLIVER: I understand. I take it you feel that Zaire has perhaps more potential than other areas of the region?

BELL: I think in many ways it does. It has very substantial mineral resources. It has, or may have, some petroleum resources; and it has extensive areas well suited to agricultural production which are, were then and probably still are, producing far less than they might.

OLIVER: Well, I guess your next incarnation was back to East Asia.

BELL: Yes, as of July 1, 1974.

OLIVER: Would it be too much to say you were glad to get back?

BELL: No, it would be accurate to say that, because, although I had begun to learn something about East Africa and begun to be quite interested, I still

felt that I was really much better equipped to work on problems in East Asia. I was particularly happy to be again involved with Indonesia and its problems. Also with other countries that I have come to know something about in the region and which seem to me to be very promising, including Singapore, Malaysia, Taiwan, Korea. As you know, of course, three of those last four are among what are described today as the Four Tigers or something like that.

OLIVER: Newly industrializing countries.

BELL: Who have been tremendously successful in increasing their output and incomes and their exports.

OLIVER: Increasing their exports of industrial equipment as distinct from Indonesia.

BELL: Yes, although within the last year or two, industrial exports have begun to figure significantly in Indonesia's exports: textiles, garments, plywood. They are beginning, I believe, to export machinery and metal products. Last night, in his talk to the Indonesia-America society, the Director of Pertamina said that Indonesia had just concluded contracts for the sale of some airplanes which were manufactured in Indonesia to a number of countries. They have already exported some. He said also that within the next year there would appear in the US market an Indonesian automobile, and urged us all to buy one. That I had not been aware of.

OLIVER: It should be called the "Indo," rather than the "Yugo."

BELL: I hope if it happens it will get better ratings than the Yugo. I was reading a Consumers Union report on automobiles just the other evening which referred to the Yugo as a loose collection of badly connected nuts and bolts. I haven't seen that reference to the Korean car, but I want to find out more

about this Indonesian car.

OLIVER: Well, Mr. Bell we're running out of tape. We can certainly do another one, but I wonder if you wish to summarize things, particularly from your Indonesian experience -- put a cap on things, so to speak.

BELL: In line with what you were suggesting. I look at Indonesia as a good example of what can be done by way of development of the so called underdeveloped countries of the world, what can be done to improve the conditions of life of the poor which constitute most of the population of Indonesia and many other countries in the so called Third World. I look at Indonesia also as a very good example of the way in which such institutions as the World Bank can provide constructive assistance.

OLIVER: Thank you.

