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Transcript of interview with

HOLLIS CHENERY

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Interviewer: Robert Asher

ASHER: The date is January 27, 1983. My name is Robert Asher. I have with me here, at the Headquarters of the World Bank, Doctor Hollis B. Chenery. Dr. Chenery served as Economic Adviser to the President of the World Bank from 1970 to 1972, as Vice President for Development Policy for a full decade thereafter and, since his retirement as Vice President, has continued to serve as a consultant to the Bank.

Hollis, you have an undergraduate degree in Engineering as well as a Ph.D. in Economics. You are a member of that small select club of development economists who have achieved genuine distinction in both academia and the public service. You have been a professor of economics at Stanford and Harvard. You have authored or co-authored some landmark publications on foreign assistance and economic development. When we first met, I think you were a Marshall Plan economist in Europe. During the first half of the 1960s, you were an assistant administrator in the U.S. Agency for International Development and during the second half, you were a professor at Harvard.

May I start our discussion with a question about the beginning of your full-time association with the World Bank? After Robert McNamara became President, it quickly became apparent that he was unhappy with the economic adviser he had inherited from George Woods. You were his personal choice as economic adviser, successor to the previous incumbent, and not long thereafter, you were his personal choice as Vice President for Development Policy. Did you know Mr. McNamara before you became his adviser and if so, how well?

What can you tell us about the process whereby he zeroed in on you as his adviser rather than, say, on a prominent European or developing country economist?

CHENERY: I don't know much about the process by which I was selected. I had met McNamara very casually when we both worked in the government in the early sixties. I met him at a conference which the Bank held to discuss the Pearson report at Williamsburg, which I think was early in 1970. Before that, I had met him for a period of about a day when he came to Harvard to be briefed on the occasion of his taking over as President of the World Bank. That briefing started at the Kennedy School at 9 o'clock in the morning and ended up at 5 o'clock in the afternoon and there were two principal briefers, Ed Mason and myself. I don't know whether we made much of an impression or not, but after eight hours of discussion, our star pupil was still going strong and asking questions.

I think from those two occasions, from the Williamsburg meeting and the briefing session, McNamara at least could connect my name and face. However, I have no direct knowledge of what selection process he went through. I imagine he consulted with people in the government and at Harvard, but I have no idea of what actually happened.

ASHER: When he came to the Bank, he was known to be an avid reader, a rapid learner and an articulate, highly intelligent man, but he wasn't an expert on development promotion, and research on development was not a major, on-going activity of the World Bank. You arrived with an agenda for beefing up the Bank's research capacity and, before long, McNamara's Bank was known far and wide as a leading, or as the leading, institution for policy-oriented research on development and development progress. McNamara himself became an eloquent and articulate advocate of new strategies of development.

Before we discuss the actual content of those strategies and the changes in Bank lending that occurred during the 1970s, would you reminisce a bit about the continuation of the educational process that began at Harvard, the interactions between you and McNamara, between you and other Bank officials that resulted in the acceptance of your agenda and the establishment of new consultative machinery within the Bank for reviewing policy, development progress and lending programs? I am thinking of such things as the Policy Review Committee, the Research Committee and other committees that were established, as well as the smaller meetings?

CHENERY: Well, to go back to the question of McNamara's interest in research, by the time he came to the World Bank, he already had been in several fields. During the war, he was essentially what we now would call an Operations Researcher. He taught accounting at Harvard. He went to the Ford Motor Company, working mainly in the financial and accounting end.

But, between the military service, the Ford service and then, his applications in the Pentagon, he developed a very systematic approach to new problems. That approach was to get an overall analysis of some sort that he could understand, to have this expressed in quantitative terms where possible and then, to probe the expertise of whatever field, whether it was a military effort or the production of motor cars or the development of a country, to try to see what the options were within a framework which he could grasp.

The real model for the Bank probably came out of his policy group in the Pentagon in which several very competent people from the Rand Corporation and elsewhere developed this kind of framework which could be applied to the analysis of weapon systems, to procurement, to budgeting, and so forth.

At least, these are my impressions from talking to people who worked for him during that period. What was a pretty well defined orientation by the time I got to know him had come out of this earlier period.

At our first encounter, it was quite clear that the reason he was interested in me was to establish not only a research capability in the Bank, but a quantitative research capability. I was then in charge of a research project at Harvard called "Quantitative Research in Economic Development" and I think that he saw a fit between the general approach which I had taken, both at Harvard and earlier at AID, and the general approach which he had in mind as to how one should analyze development problems. So, that much for the background.

I think in terms of his idea of how to use research and its relation to policy, he wanted as much quantified as possible. On the other hand, I think the image of McNamara as a numbers man has been somewhat exaggerated. For one thing, he was not a great admirer of computers. He would much

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rather have a framework which he could understand. My arguments with him about what the Bank ought to be doing were much more serious during the period when I was in charge of the computer facility because he took quite a lot of persuading that we needed everything computerized. This is not the image that the public had of McNamara at all. But, the public image that he was very good at using figures to argue with is quite correct. He had a remarkable ability to understand a new framework; for example let's take the study of population which he did as an avocation of sorts for the last fifteen or twenty years. He soon acquired a knowledge of the basic relationships which determine fertility, the relations between fertility and future growth, the interaction between education and all of the other determinants of population in a very straightforward way from the premises which he had. The same would be true of projecting the GNP of developing countries and trying to relate that to the kinds of things which the Bank might do, such as lend money or provide assistance in increasing exports.

So, the ability to see the usefulness of research and react to it was there. It required only trying out certain lines and seeing which ones would benefit him and which ones would not. I think rather than my continuing in general terms, perhaps you could sharpen the question a bit and we could go on from there.

ASHER: All right. Let's get to the substance of the Bank's work. During the 1950s and the 1960s, the Bank was engaged primarily in financing large-scale infrastructure projects and maximizing the conventional measures of growth in developing countries. But, in the 1970s, it became much more concerned with equity issues, with the distribution of increases in income, with raising the productivity and meeting the basic needs of the poorest people in the poorest countries. So-called "target" groups, small farmers and the urban poor, were established and lending was tilted deliberately in the direction of trying to help those target groups.

Can you tell us about the experiences, the studies, the internal and external pressures that brought about McNamara's conversion, your conversion, if you were converted, and the conversion of the rest of the Bank, to the extent that it was converted, to this new focus? You were involved in the classic redistribution with growth study. What contribution did that economic research make? What contribution was made by the basic needs studies or by McNamara's annual addresses and where did the input come from for those addresses?

CHENERY: Well, let's go back to the beginning. I arrived here in 1970. The first problem was to reorient the staff somewhat, and bring together some outside researchers as consultants. About six months later, we started thinking about the nature of an overall Bank research program as opposed to the individual efforts which were going on previously. There was research before, but it was not particularly organized and focused.

We identified, with the help of some outside consultants, a few main issues on which we should focus, one of them being income distribution. At that time there was not and, even now, is not a great deal of theory about what determines income distribution. The data describing changes in income distribution are quite poor. So, one of the first things we commissioned was a research project to collect the available data. This is one of the few cases in which a research assistant in the Bank, Shail Jain, became quite well known, because the professional staff member who was guiding this research died in the process and she took over and completed a rather well-known compilation of data on income distribution which is published under her name and widely cited.

One of the early aspects of the research on distribution and its determinants was to identify people working in the field and have a couple of seminars which we called "management seminars", to which McNamara came and even participated in. He has a reputation of being rather shy in public. But, on those occasions, he did ask questions.

ASHER: He didn't chair those seminars?

CHENERY: I chaired them and he sat in the back row, unless forced to come to the table.

ASHER: That's a switch!

CHENERY: There was one quite crucial debate between Gus Ranis of Yale, who was advocating a fairly orthodox view of how development functions and Dudley Seers of the Institute of Development Studies in Sussex, who was advocating a more radical approach to distributional problems. This went on for an hour and a half and McNamara stayed for the whole period. He was rather quiet, although he did ask a couple of questions. At the end of the seminar, I asked him how he thought it had gone. He said he thought it was very interesting and I asked him, "Who do you think had the better of it?" and he said, "I think Seers had the better of the argument."

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I thought Seers had the better of the argument also, but it was interesting that, without great exposure to the less orthodox views, he was rather attracted by a more activist approach to distributional problems. Certainly, Ranis was more in keeping with what was then the Bank's traditional view of such matters. Since then, Ranis may have changed, but I remember that particular piece of dialogue quite vividly.

The discussion about what the Bank ought to do got to individual countries rather early on. Here, a critical country from, let's say, 1971-1972, was Brazil. Brazil rather typified the trickle-down approach to development in a successful setting. It was, and has been since then, a rapidly growing country which paid very little attention to income distribution and which had deliberately adopted the policy of increasing its GNP as rapidly as possible, assuming and asserting that everybody would benefit in this process.

I think that much was correct. Everybody did benefit to some extent. But, in our diagnosis, the upper income groups were benefitting much more than the lower income groups. The issue in the Bank became whether Bank policy should take account of this in either the choice of projects or in the way we designed projects or in the macroeconomic dialogue.

So, in the first speech which McNamara gave on distributional questions which, I think, without checking the record was his speech to UNCTAD in Santiago, he mentioned Brazil as an example of a country which did not pay enough attention to income distribution. He provoked a very strong reaction from the Brazilians and, also, quite a lot of applause from some of the other participants.

For the next eight years at least, maybe it goes on to this day, the Bank has had an active dialogue with the Brazilian authorities on this subject and, I would say, on the whole a rather constructive one. There was one occasion when the Brazilian official in charge of the analysis of income distribution which had been stimulated by the Bank's attacks, came to Washington with the explicit purpose of talking to McNamara about Brazilian income distribution. McNamara had a dinner at which he and I and perhaps two other people spent several hours going into some detail about what was happening to income distribution in Brazil.

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I cite this, not because it happened in every country, but to indicate a genuine interest in pursuing the problem. The occasions of the Bank reviews of the Brazilian program were always occasions for debate between the Vice President, after 1972, in charge of Latin America and the Management, usually McNamara and Chenery, on this subject. On the whole, this was quite constructive both externally and internally, because other countries, other managers listened to this debate and it was not all one-sided. There was a good case to be made that the Brazilian strategy of growing fast was benefitting the poor every bit as much as some other strategy, say, a Sri Lankan strategy, which was focusing on income distribution, but growing much more slowly.

Internally, these discussions of individual countries were probably as important as any method of sharpening our analysis and, in some cases, changing our policies. In the case of Brazil, it's quite clear. We did shift the emphasis of agricultural projects to more rural development and other shifts of that kind were made.

We might go on to the public manifestation. Do you want to amplify your question a bit on that?

ASHER: No, I don't think so. You have referred to what are basically small intimate discussions in which there really could be a free exchange of ideas. But that wouldn't be enough to get a policy accepted generally throughout the Bank or to find out where opposition to it lay; it wouldn't be sufficient to persuade, to overcome or to circumvent the opposition in some way. It would be interesting to know what machinery was used and what success there was in really converting the Bank to a new focus, country by country, where it seemed desirable and necessary.

CHENERY: I think that the internal process--I will come to the external process next--initially focused quite a lot on the different sectors to which we were lending. Why were we lending so much to electric power where there was very little relation to income distribution and why not more to poor farmers?

So, rather early in implementing a change in emphasis, one got into debates about the design of agricultural projects because they seemed to be the area of the greatest promise for Bank influence on income distribution and on the pattern of development.

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I think it was no coincidence that about this time the Director of the Agriculture Department was changed. The former Director was retiring and Monty [Montague] Yudelman was brought in from the OECD. He had a much broader approach, a broader understanding of development and an interest in rural development and in income distribution which his predecessor had not had.

Some of the early internal debates were about how rapidly we could move in the direction of supporting small farmers and shifting toward poverty-focused agricultural programs. Certainly, over the last ten years, the largest efforts of the Bank in the area of income distribution have been to develop the rural poor. In this case, McNamara pushed hard for a specific set of targets that could be supported. Yudelman, I think, was quite realistic. He was very much devoted to the same objectives, but he didn't want to be pushed into endorsing some targets which could not be fulfilled. The compromise which was reached was translated into evaluating agricultural projects in terms of what proportion went to the poorer groups. The kinds of projects were looked at and questions asked. How does one reach small farmers? How does one design research to find out whether small farmers are as efficient as large farmers? One of the early assertions made was that there was a large trade-off, that if you tried to lend money to small farmers, it would be much less productive.

I think that one of the real contributions made by McNamara and Yudelman in this area was to push technicians to really find out. On the whole the results of our research were that under controlled conditions, small farmers were as productive as large farmers and the subsequent evaluation of Bank loans in this area has shown that the projects designed to reach small farmers has had perfectly adequate, if not outstanding rates of return. It was not necessary to change the Bank's evaluation criteria in order to accommodate a shift in emphasis in helping the rural poor.

ASHER: But sector and country program papers were not written in the research part of the Bank that you headed, were they?

CHENERY: The part of the Bank that I headed had both a program review function and a research function. The Department headed by Mahbub ul Haq, Policy Planning and Program Review, was an area where we tried to bring together the research findings and apply them in country discussions. The agenda for a discussion of agriculture in Brazil, or in any other country, would be partly formulated by the Development Policy staff, based on such findings from research as we had, as well as on the understanding of comparative experience in different countries. In that period, the administrative capability of bringing together research and policy judgments was concentrated in one place.

The examples I have been citing have been the effects on the choice of projects, of sectors and the kind of projects within the sector. This kind of thinking was then extended in the Research Committee to a general effort to examine what has become known as the "small is beautiful" theme in other sectors. Is it not possible to have a technology which is simpler and which reaches the essentially rural population in highway building or in sewerage or in other sectors? So that, although agriculture was the first sector in which we scrutinized technology, choice of projects and who was benefitting, we then went on to do the same thing in other sectors. I would say that over a period a substantial part of the Bank's more project oriented research was of this kind.

This, in turn, led to policy papers written jointly by the Policy Planning staff and the sectoral technicians on Bank policy in housing or Bank policy in road construction or in other areas, which tried to explore these themes. I think after three or four years this became a general Bank theme and no longer needed very much selling in-house. I will not claim that the Development Policy staff did more than simply push the ideas at the beginning. They met a very welcome reception among project staff, after the staff got used to the idea that there was no trade-off between poverty and growth.

ASHER: Where does the discussion of basic needs fit into this? This is not necessarily the same as redistribution with growth. What was the origin of the basic needs approach and how much of a controversy did it cause?

CHENERY: Well, that's a complex story. I will start off and you can indicate how much of it you want to pursue. Let me go back to the beginning of the subject. The Bank conference which led to the publication of the book on redistribution with growth took place just before the ILO work was produced which became the origins of the basic needs slogans, as well as the origins for the research on the subject.

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The ILO theme, to digress briefly, emerged from a series of country studies done mainly by well-known outside economists, such as Dudley Seers, Richard Jolly, Gus Ranis, and several others. They looked at countries such as Colombia, Tanzania, Sri Lanka, Kenya and others, and tried to come up with a generalized, ideal plan for those countries emphasizing mainly employment as a route to better distribution. Later this became merged with the idea of supplying the basic or minimum needs of poor people.

There was a lot of interchange between the Bank and these ILO groups, at meetings such as the one we held and, later, at meetings they held and also through the exchange of ideas, papers, and so forth. So, I would say that the development of the basic needs concept became a joint activity.

There was always something of a split within the Bank between people who saw the basic needs approach as a way of affecting all of the governments' approaches to policy and many other people, in whose eyes this involved government intervention to an unnecessary degree. The controversy over the approach and the controversy over, say, the extent of socialist controls involved has never been resolved.

My own view was that we should explore the advantages and disadvantages claimed by both points of view and the first series of studies which the Bank made were based on some country examples where we had favorable conditions to observe, such as Sri Lanka. That is perhaps the best laboratory case of a country which had been doing many of the things which the basic needs advocates were in favor of, such as subsidizing food consumption, education and health. They had done it for a long enough period of time that Sri Lanka stood out, still does stand out, as a country which has a much greater life expectancy, much higher education standards, a drop in fertility rate and a better distribution of income. The question then became, since this was the only clear-cut example we had, what were the elements which could be replicated in other countries? I think that is still an ongoing debate.

There was a research stream led by Mahbub ul Haq and Paul Streeten, the more research oriented being Paul Streeten and the more policy and advocacy oriented being Haq, and I believe you have the latter's comments on the subject on record.

ASHER: Yes, the Bank does.

CHENERY: In both written and oral form?

ASHER: That's right.

CHENERY: In terms of Bank policy, I would not say that we ever adopted a basic needs approach in our project lending. I think that the majority view was that within the context of the way the Bank operates, it was perfectly feasible to find good projects either in agriculture or in housing or in education which combined the objectives of meeting basic needs, but did not violate the Bank's insistence on a productive social return to the country concerned.

ASHER: But weren't the basic needs advocates saying the same thing? They weren't advocating subsidies, they were advocating useful, productive projects which had a payoff.

CHENERY: In the first place, they wouldn't stress making a calculation of the return because they felt, perhaps rightly, but at least differently from some others that the meeting of basic needs had a lot of external economies which you could not measure and, therefore, the Bank's traditional cost-benefit analysis would not capture enough of these benefits. Although they wouldn't say, don't do it, they would say, don't necessarily abide by the results if you have lower returns for this kind of project; there are other compensating benefits of the kind that I have indicated for Sri Lanka.

The issue in terms of Bank policy really was whether to modify our project evaluation criteria by giving somewhat greater weight to incomes of the poor which, in fact, we did. One effect of saying that we want half of our agricultural lending to go to the poor means giving more weight to the poor recipients than to others because that is going to tilt how we choose projects. But, that's different from saying provide, if necessary, subsidized or free services to target groups without regard for this kind of calculation. It's a fine line, but it does affect the way that the Bank does business or the way countries draw up their plans. I think that basic needs according to the Paul Streeten version--he has now published a considerable amount on the subject--would tend to downplay the project side and look more at the overall effects on the society.

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The Bank was much more eclectic in its general discussion with countries and in the more general statements it made about its philosophy or in the dialogue it held with countries on their own development strategy. We did not try to dissuade countries which already believed in some version of basic needs, but neither did we insist that every country, or even most countries should have any particular version of a basic needs policy.

ASHER: But the Bank did press for the poverty focus, as you outlined it, before getting into the basic needs discussion?

CHENERY: I would make a significant distinction. I think the basic needs approach is one means of implementing a poverty-oriented policy. There are other means which don't involve direct intervention by providing certain basic commodities which basic needs does and which would be more market-oriented. The Bank generally has tended toward raising the incomes of the poor and letting the poor purchase their own set of commodities, rather than supplying food stuffs and other things directly.

ASHER: Except clean water, low-cost housing.....

CHENERY: There are some exceptions like low cost housing, water, transportation, which of necessity are supplied partly as public goods. I don't think that even in the old Bank, there has been much of an issue about that category.

ASHER: Well, by the end of the 1970's, the Bank had had a fair amount of actual experience with new-style projects. I am aware that you chaired an in house task force on the World Bank's poverty focus that was established in the middle of 1981. The theme of that report was that the poverty focus should remain a key feature of the Bank's overall development work and lending strategy. That theme was endorsed by the Executive Directors and reaffirmed by the successor to McNamara, President Clausen. The report doesn't mention basic needs, but do you now believe that the Bank is really still firmly committed to the poverty focus and devoted to it, even though they have a less missionary President than McNamara in charge?

CHENERY: Yes, I do think that President Clausen is genuinely devoted to this objective. I think the world has changed a lot in the last ten years. The real test will come with the urgent problems of adjusting to the oil crisis, the world recession and other disruptive factors which, I think, have changed the nature of the countries' priorities and the Bank's priorities. Of necessity this has meant that countries, even though their own views of this matter may not have changed, have had to give higher priority to essentially adjustment problems.

ASHER: And to a smaller IDA, I suppose, which also affects the kind of financial burdens they assume.

CHENERY: Yes, although I think a country which is committed to a certain set of priorities is going to apply those priorities whether it is getting a larger or a smaller amount of external capital. But, the balance of payments changes certainly have changed the application of those priorities.

There are several things you could look at in the future. What you said earlier is correct. Our report was accepted in the Bank by the Board and was published. I think it is a fair account of what has happened in the past ten years. It is rather cautious about drawing any conclusions for the future because that wasn't our assignment. Our assignment was to evaluate the success of the present policies and to make some limited recommendations for the future. And this we did. I think the problem will become urgent however, as countries try to restore their economies, assuming that we are on the way out of the world recession. Some of the poorer countries have been very badly affected, and the typical effect within countries is that the poor bear the larger brunt of external shocks as compared to the more affluent.

Although there are no figures yet to show it, my guess is that income distribution within countries and in the world has been made considerably worse over the last five years and, therefore, the problem essentially is more acute. Probably we are no further ahead overall than we were ten years ago.

ASHER: Does that include developed countries such as the U.S.?

CHENERY: Probably. Yes. Unemployment certainly implies a worsening of income distribution in the advanced countries.

ASHER: I gather that you were really one of the most tolerant and least authoritarian bosses in the history of the Bank. Nevertheless, the presence of a Mahbub ul Haq, a prominent spokesman for developing countries, on your staff must have created occasional problems for you. He became quite famous. He was a public speaker, often expressing personal views and saying that they were personal views, but which nevertheless tended to be attributed to the Bank. He was often in faraway places, speaking and participating in conferences for a fair amount of time.

What are the advantages and disadvantages of having such a prominent developing country spokesman on your staff and, more generally, is there a problem in having economists with reputations and names of their own as part of the staff of a technocratic institution, a big bureaucracy in which anonymity is the role of most of the people in it?

CHENERY: I will try to answer both sides of that question in a not very well organized way. In the first place, I hired Mahbub ul Haq to come to work for me; this was an act of free will. I had known him for at least ten years before I came to the Bank. We both had served as advisers to the Pakistan Institute of Development Economics. He has a Ph.D. from Yale and we had had several contacts before either of us came to the Bank. In fact, we came to the Bank about the same time. I discussed the question of appointing him with a number of people who knew him. Harvard had worked extensively in Pakistan and he was well known to a number of my colleagues there. We did not expect Mahbub to change, and I would say that there were no real surprises in his subsequent performance.

I felt that it was desirable to have a variety of views represented in the staff and that the only criterion should be whether the individual concerned was genuinely loyal to the Bank as an institution, which didn't mean that he couldn't be loyal to his country and to his beliefs in other things.

The only problem with having an outspoken person such as Haq, although he is certainly not the only one, is to draw a line between the official statement and the private statement, which I think in the end is almost impossible to do. As you say, Haq became very well known during this period as the

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Third World spokesman within the Bank. I think on balance my feeling was that it was worth the effort, although there were times when various people felt he had gone too far, that the game wasn't worth the candle, that he was too much trouble to management and so forth.

I felt that Haq was quite honest with me, with McNamara, with Stern, and with the others who were dealing with him closely. I think we were the three who were mainly concerned. Stern, who was then my Deputy and who was overseeing the policy planning activities was particularly involved. He and Haq had many internal debates, but managed to stay on reasonable terms and had a reasonable understanding.

So, to the more general question. I think it's very desirable to have a full spectrum of views, not just centrist views, represented in the Bank. We have had, at the other extreme, people such as Ian Little and Alan Walters, who has recently been serving as adviser to Mrs. Thatcher. Both of them are certainly as far, or farther, along the conservative Milton Friedman end of economics than Haq is toward the radical end of the spectrum, and equally vocal. I don't know if you have seen Ian Little's recent book, but in it he is as much a critic of such things as basic needs, planning, public intervention, etcetera, as Haq or Streeten would be advocates.

The problem of management is to get the right mix so that you are not known as just that bunch of radicals or that bunch of reactionaries. That was my objective during the period when I was recruiting economists for the Bank. Once it is established that the Bank recruits on the basis of quality but not on the basis of a particular viewpoint, the Bank becomes a much more attractive place to work. It becomes possible to recruit first rate economists with the understanding that within agreed limits, they are able to follow not only their particular approach to economics, but also they don't have to suppress their general views about how the world works. I would not say that we succeeded in being as diverse as, say, the Third World itself, because a high proportion of economists in the Third World are Marxists. We have very few Marxists in the Bank. We have some Marxist countries among our membership, and probably you could say that the Marxist point of view is under-represented. But to the extent that we have been able to get diversity, I think it has been a benefit.

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I wouldn't minimize the costs to management, particularly for people in policy positions. The Haq case occasionally became rather difficult, but on balance I would say it was very well worth the benefits which it brought the Bank in terms of having that point of view represented in its inner councils.

ASHER: What about the point of view of social scientists other than economists? Was that adequately represented?

CHENERY: No. I think that that was not put high enough on the agenda to make a large dent. Over the last ten years, we have had a number of reviews of our research and policy work by outside groups. Several of them commented correctly, I think, that in fields such as health and education, we ought to be stronger in non-economic points of view, not just treat these as another sector to which economic criteria should be applied. I don't know what the proportion is. I suppose there may be ten or fifteen working social scientists in the Bank who are not economists, but that, I think, is too low.

ASHER: Do you think that the Bank has been sufficiently imaginative and persevering in building up the research capacities of member countries in the developing world?

CHENERY: I would regard that as one of our failures. It's not that this criticism hasn't been made and accepted quite a long time ago. In our early statement of objectives, which we first published in 1971 or 1972, we set out four objectives for research and the fourth one was to support the research efforts of the developing countries themselves. But in the way we set ourselves up to do research, this always got somewhat short-changed. We had a number of joint research contracts with institutions in developing countries. They are always more difficult to administer. It's harder to guarantee delivery and it takes longer.

ASHER: I think we discovered this at Brookings too.

CHENERY: The incentive system did not really work in favor of people who genuinely tried to support developing country institutions.

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The record is somewhat mixed. I can cite a number of successful relationships. This was one of the strongest recommendations made by Sir Arthur Lewis and the main advisory panel which he chaired several years ago, that we should do much more in this area. But that recommendation came at a time when we were not in a position to implement the proposal. The shift toward reacting to world recession and retrenchment in Bank activities was already on. But, it's still an item for a future agenda.

ASHER: Do you think that the Consultative Group on International Agricultural Research provides any kind of pattern that could be followed more extensively for non-agricultural research institutes in the developing world? The Bank just makes grants to them, and is aware of what they are doing. Isn't that right?

CHENERY: I think they do a bit more than that, but essentially, they do end up making grants.

ASHER: While knowing the priorities, of course.

CHENERY: And agreeing on the priorities. I think with adaptations, it could be a model for some kinds of economic and social research. In fact, when we discussed this with the Lewis Committee, we did pursue it as a possibility. However, it would require large-scale support from the Bank to carry out because, if the Bank put in ten or fifteen million dollars into agriculture, it would have to do at least as much for the whole field of economics to make much of a dent and it would have to be approached on a phased basis.

I think McNamara seriously considered doing it, but the initiative was overtaken by other events.

ASHER: The report of Sir Arthur Lewis' group was made in 1979?

CHENERY: By the time it finally came out, yes.

ASHER: I agree that it was a good report. I don't know how influential it was. What would you have liked them to say that they didn't say and did they say some things that, in your view, were either myopic or mistaken?

CHENERY: As it came out, I thought it was quite a good report. When you have eight people, four from developing countries, four from advanced countries and a diversity of views, to get a strong statement on any subject is something of an accomplishment.

This was a good middle-of-the-road report. It advocated some shift in our priorities, but not drastic shifts. It advocated a phased increase in research and more participation by developing country institutions which is all to the good and which we have just mentioned. It gave examples of the areas in which the Bank has a particular advantage in doing research, which I think is quite important because the first question anybody would ask, and has asked, is why should an institution designed for lending be doing so much research or doing much research at all. The answers which we had worked out and which they helped us think through further, go in the following direction. There are some things which the Bank is in a much better position to do than any private research organization and this has to do with our access to country policy makers and issues, and is demonstrated by the fact that we prepare economic reports on a phased basis on all developing countries. So, we have a potential for comparative analysis which is unique. The UN has the same membership but it doesn't have country economic missions.

I think some of the Bank's best research has been in the field of comparative studies, taking a particular aspect, whether it is technological or economic policy, and pursuing it in a number of countries and trying to draw some conclusions. That sort of research was supported and advocated as an area of the Bank's comparative advantage. Similarly, there are some topics which are not attractive. Agriculture is an area where the private institutions are well developed, but if you take housing or sewerage or road building, you don't find comparable institutions doing research on how to do it in developing countries. So, having identified a few such areas, we felt we should at least be providing some seed money and getting some research started. It is the opposite of the Bank's comparative advantage. We have less disadvantage in doing that because we have operating departments in those fields which can be induced to do a bit of research even if it is more or less of a sideline.

There are good reasons for the Bank to have a rather diversified research portfolio and the existence of this review panel and the necessity of preparing papers for each of the specialized groups was a very salutary exercise within the Bank. It forced us to clarify our own priorities in areas where we really hadn't set down those priorities. It was as much the process as the final product which was important, but I wouldn't point to any particular weakness in the final report.

ASHER: But there is a tendency for research to get increasingly diversified once you have a group of talented researchers on hand, isn't there? They have interests of their own which they like to pursue and in a way, one has to be willing to accommodate the specialized interests of particular researchers as part of the price of keeping them on.

CHENERY: Yes.

ASHER: Then there is the question of when does research get so esoteric that you have to rein things in and refocus it. I don't know whether that's every five years or once every ten years or what, but it does happen. It used to happen at Brookings.

CHENERY: Well, I think the problems at Brookings and at the Bank are quite similar in this respect. The main influence you have as a manager is when people are employed. You have priorities and empty slots and you can try to match up your new interests with the vacancies. Once people are on board, then, as you say, you either accept their approaches or you have unhappy employees and they will leave.

So, it is a matter of compromise. On the project side, which does about a third of the Bank's research, the conflicts are probably less because their interests grow out of their operational work and they tend to be more micro-oriented.

The conflicts of the kind you mentioned are more likely in the theoretical kinds of macro-economic research whose payoff to the Bank may be somewhat longer. The argument then could be as follows. Isn't this research too speculative? Even though this is a competent man who is doing it, should we really allow him to go on very far in that direction? That has been the kind of debate which the economic research group has had with its members over the years. I think my own test is not necessarily that every particular project has to be of a certain kind, but the portfolio has to be balanced toward the applied end of the spectrum. You can't have, say, more than ten or fifteen percent of speculative, theoretical work which does not lead you rather directly.

On the other hand, I think it would be a mistake to have no speculative, theoretical research because then you would cut off some of the most talented people who wouldn't want to come here in the first place. You would also cut yourself off from the flow of ideas in the academic world which

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you want to be in a position to survey so that you can pick out the ideas which are ready for more immediate application. You have to have some research that is more or less initiated by the researcher, and the test has to be the overall balance.

This question is raised every year in the Board and we give different answers to it in our annual research report. In recent years, the Board has been relatively accepting of the Bank's mix. As long as there is enough visible on the immediately applicable end of the spectrum, they are tolerant of a bit of research which they don't quite see has an end.

ASHER: You have alluded to one kind of problem that the World Bank has that the Brookings Institution, which is just a research institution, does not have, namely, you have operators here and frictions between researchers and operators are a standard feature of bureaucratic life. Sir Arthur Lewis' report alluded quite diplomatically, I thought, to the need to narrow the gap between the Bank's research and operational personnel. There is a brand new book by Bob Ayers that puts it more graphically. He refers to the tendency of the operational staff to view research personnel as, "misplaced academics"--I am quoting--"who never built a dam or laid a road," and the tendency of the researchers to view the operational staff as dam and road builders "incapable of scaling the higher reaches of abstractions. There was thus some tendency," he goes on to say, "for each to view the other as irrelevant". The Bank research work was probably taken more seriously by the academic community outside the Bank than by many within the institution itself." Do you think that is a pretty extreme posing of the thing? and what, in real life, were some of the points of friction between operators and research personnel? What thoughts do you have about this general feature of life in a bureaucracy?

CHENERY: I think the friction is much more over slots and money than over other issues. I thought that Mr. Ayers' statement, which you quoted, was very carefully put and really doesn't say anything. If you say that research is viewed with greater respect in the academic world than by many in the World Bank, I think that would be true of any institution. It also implies that there are many who think that it is a good idea and make use of it, but I don't think that more than one professional in three or four is capable of making use of research no matter what it does, nor is it necessary that the more routine people become the intellectual leaders in any particular field.

[CHENERY]

What is important is that there are no large gaps between the people working on education or health or agriculture or lending policy in general and the researchers. That takes some people with the intellectual capacity and willingness to follow what is done in research in order not to have a gap between the two. The Bank has one strong mechanism which works in favor of avoiding this gap problem, and that is the rotation of people. There is a fairly steady stream of people, hired primarily from academic life, who are interested in the applied aspects of economics and who move from an initial assignment in a research department to becoming country economists, sometimes division chiefs.

It's interesting to look at the senior staff of the Bank. A high proportion of them started as academic economists. Since the rewards in terms of management and power are greater on the operating side, there is the pull in that direction. I have only to name my former Deputy Ernie [Ernest] Stern, Shahid Husain, Warren Baum, who was a Harvard Ph.D. after all, although he was in charge of the operating side, Attila Karaosmanoglu, who has recently become Vice President, was another deputy of mine in research. Many of the regional Department Directors came out of the analytical side of the Bank. At the next level down, the fact that a number of the academics who come in to do research are competent, as well as interested in moving, has made them some of the best country economists.

Along with the movement from research to operations or to something in between such as being a country economist, there is the opportunity to apply some of the tools that you have studied and worked on in a research setting. Some of the most interesting analytical work done in the Bank is by such people who are somewhere in between, having been researchers and now, looking at policy applications. I am thinking of people such as D.C. [Dhairiyashil] Rao, Kamal Dervis, Jed [John D.] Shilling and there are many others who would be very good researchers, but who are also quite good on the operating side. But, what they have done as they moved into the operating side has been to raise the quality of the analytical work that they have moved into. Since these people also sit on the research committee which reviews the selection of projects at the beginning, which always has more members from the operating side than it does from the research side.....

ASHER: At the beginning of the project or at the beginning of the year? Or both?

CHENERY: The Research Committee reviews all projects. It's not related especially to a fiscal year operation. It meets throughout the year and has an annual budget. In the last ten years, no substantial research project could be started at the Bank without a review by the Research Committee and the Committee has a preponderance of members who are currently holding operating positions, although most of them have some research background. So, the design of the Bank research cannot get very far out of line with the interests of the operating side. It just isn't the case that there is somebody in control of an ivory tower group which can do very much without the approval of the operators.

I think some tension between research and operations is inevitable, but it seems to me to be much more a question of timing. It's urgent to make a loan to country X right now, can't we steal your best researcher for three months to help us write our country report? That sort of thing.

ASHER: I'm told you were very generous about letting them steal your best researchers for operating or for temporary work or for any kind of experience that they seemed to be willing to acquire?

CHENERY: I felt that one of the strengths of the Bank is learning from those experiences. A man who has actually done an analysis which was designed for the Minister of Finance or the Head of Planning in a country is permanently affected by that process. He will not go back to the less useful parts of economics in the future.

ASHER: You were also a great advocate of wide distribution of Bank reports, of disseminating research findings. To some extent, this was a departure of the traditional behavior of bankers who aren't known for sharing all their views with the widest possible audience. Did you encounter any problems in this? Does the prospect of wider circulation improve the research product or force a blander and more innocuous version to be prepared?

CHENERY: I think there are only a few sensitive subjects where that last question applies. Research on individual countries raises special problems because whatever it is you say, somebody is going to take offense. Whatever you find out about Brazilian income distribution, somebody isn't going to like

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it. In that sort of research there have to be a few compromises in order to have publication with the country's support. Occasionally we publish things that the countries do not approve of, but we would much rather discuss issues with the country concerned or at least, have the views of researchers in the country, if not of its authorities, reflected in whatever we publish.

The problem is not so acute in research as it is in the Bank's country economic reports, some of which have annexes which you could call pieces of country research, but which are predominantly evaluations of the country's plans and performance. There, the views in the Bank have been divided. As you say, I have been known as an advocate of maximum publication and some country managers have felt that this, in some cases, is counterproductive. You have to water down whatever it is you say so much, that it's better not to publish. On balance, I still think it's better to have a policy of publishing everything, trying to get countries to agree and those countries which have taken the risk and allowed us to publish things which they were somewhat dubious about, usually have been pleasantly surprised. The fact that they allowed it to be published was recognized to be in their favor. There have been rather controversial reports on the Philippines, Yugoslavia, and on other countries which were published, I think, to the benefit of the country. There have been other reports which the countries did not agree to--which I will not list--which I think could have been published.

ASHER: Are there problems of attribution to researchers and the prominence that they get as a result of published research by the Bank?

CHENERY: I think some of the country economists feel that the researcher has a privileged position. We have changed the policy on country economic work. For the last few years, the principal authors have been listed on the cover of country reports, but that was not the case previously. Earlier on, it was just a report by the World Bank. Now, if it is a report by Mr. Hassan on one of the Far East countries, his name will appear on the spine like anybody else's. This has helped in treating all economic work in the Bank more equally.

[CHENERY]

As far as the pure research or the non-country specific research is concerned, there has never been much issue about publication because the intention in doing it was to have some form of publication, whether a book or an article or whatever. I don't think anything was ever approved by the Research Committee which wasn't designed to be published. So, like Brookings, it may not be published because it doesn't turn out to be very good. But it's never not published because of some policy of censorship. I don't see much difference between Brookings research and Bank research of the non-country variety in this respect.

ASHER: Now, turning to not exactly research pieces, but more to matters of public relations, the Pearson report was published before you came to the Bank, but you were on deck by the time the Bank got around to responding to its recommendations. A decade later or so, the Brandt report was conceived and completed while you were a Vice President.

Neither report could have appeared when it did without the assistance and possible connivance of the World Bank, and both of them necessitated follow-up work by the Bank. How much influence over this kind of exercise did the Bank exert, and how credible, valuable and influential do you think this kind of exercise is? Provided always, that it doesn't happen too many times in a decade.

CHENERY: Well, as you say, I arrived at the end of the Bank's responses to the Pearson Commission. I think McNamara identified thirty-four different topics which required a response. One on program lending was assigned to me the month after I arrived.

ASHER: We'll come to that.

CHENERY: That wasn't particularly typical, but it does illustrate one point. I think it was very useful to have raised the issue, whatever the Bank's response was. There were several other issues raised by the Pearson Commission which, just by having to reassess them internally and come out with some statement of Bank policy, even if it was just a refinement of the existing policy, was a useful exercise.

[CHENERY]

When it came to the Brandt Commission, the fact that we were then launched into our own World Development Report made the need for the Brandt Commission somewhat less. By this time, the analytical foundations of Bank work were at least as sophisticated as anything that the Brandt Commission produced.

There was quite an open exchange, and sometimes not so open exchange, of background documents between the Brandt Commission staff, several of whom were recruited from the Bank, and the Bank staff. I think having a common factual basis was all to the good. The advantage of an outside commission is to air views which are unpopular with some of the major governments within the Bank and consequently never get very far. Questions like: Do we have enough Third World staff? Should we be decentralized? Should there be competition with the World Bank? Should there be other banking funds, etcetera. Those kinds of questions are not going to be raised in the Bank context as it now is and probably it is useful to raise them once a decade.

ASHER: But, isn't there another purpose, namely, to churn up or to recharge the batteries of the general public which becomes bored with development assistance or reluctant to see it continue to expand? This kind of report supposedly changes or can influence the climate within which development is discussed in various countries. Is that a role which they can really fulfill or is that hoping for too much?

CHENERY: I think there are two roles. If you say, how does it compare to having the Bank produce an internal document or to having an external document produced internally; suppose the World Development Report and the Brandt Commission say exactly the same thing, as they did on several subjects, is it useful to have it said by the Brandt Commission? I would say probably yes, because whatever is said by the World Bank is assumed to be an in house view.

ASHER: And rather self-serving?

CHENERY: Yes. Even on subjects like trade where we both had some interesting and useful things to say, it's probably better if it's endorsed by this very diverse group of private individuals and former government servants, quite separately from any representative institution like the Bank.

[CHENERY]

I think there are two functions. One is that they can address a broader range of issues and, secondly, just agreement from such a diverse body on some statement does have considerable impact on public opinion. Apparently, the Brandt Commission was much more successful in Europe than it was in the United States.

ASHER: I've heard that's true of the Pearson Commission too.

CHENERY: Probably yes. I don't remember.

ASHER: In Japan, certainly.

CHENERY: The Brandt Commission report was actually a best seller in several European countries, Holland and England. I think there were much larger sales in Holland than in the United States.

But the answer to your basic question is broadly yes. It is useful to have such occasional activities; having them take a fresh and somewhat provocative view, launch some trial balloons which are not ready for actual implementation but, at least, are then kept in the public eye. I think that is all to the good.

ASHER: We mentioned the World Development Report. This is a relatively new series in the Bank's work. I take it that it grew out of the Prospects for the Developing Countries series which you were instrumental in launching and putting forward for a few years. It would be interesting to hear a little bit more about the origins and the responsibilities for the preparation of the World Development Report and the value of that series, including my favorite portion, the statistical annex which I find enormously valuable. I take it also that this is a perfect example of the kind of report that the Bank is uniquely qualified to prepare.

CHENERY: I think that is true.

ASHER: Especially the annex, maybe?

CHENERY: I think full credit should be given to Robert McNamara for the annex. He really had the idea and pushed it and was in a position to implement it. It was his view that to collect a certain amount of good data, data that had been examined and maintained, in one place, on a comparable basis, in a readable form and then widely distribute it would have a considerable impact on the world's thinking. And, I think he was right.

If I had had the same idea without the backing of McNamara, nothing much would have happened because it was very expensive to do this initially. Now it's not very expensive. But setting up the apparatus, printing it in a good form and distributing a hundred thousand copies a year meant the commitment of several million dollars which, I think, was well worthwhile.

ASHER: But did this grow out of the Prospects paper?

CHENERY: That is really taking your last point first. Let me go back. I think the Prospects paper is one of the few things that I initiated. The occasion was the rise in oil prices in the Fall of 1973. All of a sudden the cost to developing countries of just this one change in price was considerably greater than all the aid that they were getting from all sources. It seemed to me that as a development institution, we had to drop whatever else we were doing and focus on this new problem. We put together a task force initially, including some energy experts and some industrial experts, as well as economists.

ASHER: From within the Bank?

CHENERY: Initially, ninety percent were from within the Bank. We made a rapid analysis, trying to come up with some conclusions that could go to the Board in a period of three or four months and, then, a couple of months later become a product which we could publish internally. This process was then repeated for the next four years.

In that first stage, Ernie Stern was invaluable. He is an outstanding, quick analyst and mover of people within the organization so that a good division of labor emerged, as well as a great willingness of people from all over the Bank to work regardless of bureaucratic responsibilities. It was much more like a war-time atmosphere in which once management had said this should receive top priority, it received top priority.

[CHENERY]

I think the Bank's first efforts were quite imaginative. They brought together some widely different lines of analysis and could stand the test of time in comparison to other analyses of the same period, not that we had any corner on good ideas. The result was to redirect the Bank's thinking rather quickly and to get us to focus on how the developing world was going to adjust to this large shock and what was going to happen to the oil-exporting countries.

This pattern was maintained for the next four years. Each year, it was a cliffhanger as to whether it would get through the Board or not. The first year, the United States government was strongly opposed. This report was alleged to be pro-OPEC. The next year, it was the other way around. Several of the OPEC countries protested it was alleged to be pro-somebody else.

However, we finally decided that, so long as we rotated the people whom we were criticizing, and did not try to publish it, we could get away with some fairly candid analysis of the kind that is difficult in individual countries and more difficult when you have the Board members sitting around.

The question was whether it could ever go any further. What happened, of course, was that those early documents were each leaked and got headlines in the financial press. The Bank was never in a position to defend itself as it was quoted on an unauthorized basis. The document itself was not available and whatever wild statement we were alleged to have made was what made the headlines. So, having decided that we ought to continue analyzing the world economy and focusing on the adjustment to these problems, the next question was: "Is there some way in which we can get this through the Board?". In frustration, as it was clear that we could not get the first couple through the Board, I asked McNamara if I could write an article, based on the report.

ASHER: Was that the Foreign Affairs one?

CHENERY: That became the Foreign Affairs one.

ASHER: "Restructuring the World Economy"?

CHENERY: Yes, it was called, "Restructuring the World Economy." He told me, "You can write it. I don't think you can get it cleared or get it published, but you can write it." So, it turned out that, with his assistance, it was both cleared and published.

ASHER: And influential, I think.

CHENERY: Once that got out, it meant that the essence of the Bank's early analysis moved into the public domain in a more authoritative manner. The Bank's influence was completely disclaimed, but it was stated that the article was drawn from the Bank's analysis. At least, I put in the actual numbers rather than numbers invented by some reporter. Then several years later, we were able to design a World Development Report, based on the kind of analysis which, by then, we had been doing for three years.

ASHER: But, by this time, Ernie Stern was not on your staff but a Vice President for Operations.

CHENERY: He was in transition. Again in this case, he was more or less drafted because I was on leave at the time when the actual editing and putting together of the first World Development Report was done. He was given responsibility for assembling the first one and then I took over the next one. He played a key role, both in the Prospects paper and, four years later, in the first World Development Report.

ASHER: Do you have the impression too that the Statistical Annex is as valuable as any part of the Report?

CHENERY: Oh, yes. As I said, I think McNamara had a brilliant insight into what the world needed. I find regularly that whatever academics disagree on, they will agree to use those numbers. Textbooks are regularly rewritten to incorporate the latest quotes from those figures.

ASHER: In your pre-World Bank days, you were influential in alerting me and others to the merits of program lending, but the institution of which you were a Vice President for Development Policy was not exactly a great enthusiast for program lending. Did your views change during the time you were here on the merits of program versus project lending? Are your own views substantially unchanged? You weren't successful in converting this institution, were you?

CHENERY: Not really, no. At least not until after the oil crisis, when people became more receptive to the idea. We adopted much of the concept and finally re-named it structural adjustment lending.

Essentially, I think my views have changed to the extent that I think all of the donors together ought to be providing quite a lot of non-project lending, which is the best definition of program lending. In other words, loans not connected to individual investments but related to the overall plans and policies of the country, and, therefore, monitored in relation to those plans and policies.

Where I guess I have changed is in terms of my position. In other words, I'm sitting here in the Bank rather than in AID. In the days when I was working at AID or under the Marshall Plan, which was...

ASHER: Almost all program lending.

CHENERY: Yes, it was ninety-some percent program lending. When AID was first established in the early 1960s it was at least fifty percent program lending. Then, it was lending quite a lot more money than the World Bank and it was the largest lender in a number of countries. It made sense in that context for somebody to be carrying on a dialogue with the Minister of Finance or Planning, or with whomever the policymakers were, on the overall priorities, and to have the external lending related to it.

There are several difficulties involved in doing this at the World Bank. In the first place, it's more difficult to come to an agreement on narrow issues, such as the Fund has dealt with.

I think the Fund had its problems with the implementation of its approach, but even over this narrower issue, the Fund illustrates the problem of an international institution trying to lend money on this basis.

For some portion of the Bank's borrowers, I think that more program lending throughout this period would have been a good idea. I don't know what the number of those clients would have been. We made our first, early effort to quantify program lending in response to the Pearson Commission

[CHENERY]

in which, after much argument, a figure of between six and ten percent of Bank lending was stated as a likely range. In fact, only twice was it close to the ten percent limit and, therefore, the issue of whether the Bank should do more in the recent period has not become very acute because it never was pushing against its own guidelines as to how much it might do.

The clear advantage of program lending is that it involves better dialogue with the country on important questions and I think better use of Bank funds, along with other external funds.

ASHER: And quicker disbursement? Or are you going to say that that is not an advantage?

CHENERY: It's an advantage when you're trying to adjust to an external shock. It doesn't make that much difference when things are going more or less as you expected. However, there have been many external shocks in the last ten years which almost no country anticipated and in that respect program lending is an advantage. That has been one of the main justifications for the structural adjustment loans, which are quick disbursing.

ASHER: As you indicated, the Fund makes program loans. It has been criticized, but it does disburse a fair amount of resources in this fashion. Do you see any merit in some merger of Bank/Fund lending to developing countries and/or merging more of their respective research, country reporting and dialogue?

CHENERY: On your second point, I think there is clearly room for considerable further movement. There has been some movement. Both institutions have had to react to the effect of the oil crisis, to larger balance of payments deficits and so forth. We have moved in their direction by instituting structural adjustment loans. They have moved in our direction by taking a longer view of problems, by recognizing that the reaction to worsening terms of trade cannot be in the form of a quick one or two year solution. We have both had to look at the middle ground of five to ten years adjustment programs and this has brought us closer together.

The mechanism has been a Bank man going on a Fund mission or a Fund man going on a Bank mission and, occasionally, a really joint mission. Ideally, there should be more joint missions to address

[CHENERY]

the structural adjustment kind of problem where both institutions, as they are presently constituted, really should be making complementary loans. Certainly, the dialogue with countries ought to be consistent. So, I think there is quite a lot more analytically that could be done.

To go any further than that would require quite a different concept of the separation between the two than now exists. I have never really tried to think through the plusses and minuses of such a further merger. The Bank and the Fund are pretty cumbersome as they are. I don't know whether further merger would just make them more cumbersome.

I have had several quite favorable experiences in connection with joint missions. The Bank and the Fund both had a mission to China at the same time, which worked together extremely well. We relied on each other's reports, but we were both in a position of starting from scratch. There were no vested interests, just the common objectives of finding out more about the Chinese economy. If that was an example of how a cooperative mission could work, then I would be enthusiastic about more of them, but I don't know whether that was a unique experience or not.

ASHER: It's certainly encouraging. You referred to both the Bank and the Fund as cumbersome, and I guess by that you meant that the Bank is a big, highly centralized institution, particularly compared with the United States AID agencies in which you worked. Do you regard the Bank as excessively centralized in Washington? And, if so, do you have any notions of what functions one could decentralize, and how?

CHENERY: Well, ten years ago, this was a live issue in the Bank. There were memoranda prepared on decentralization. The President was never very much in favor of any rapid movement in this direction, but certainly he didn't discourage some movement. I think the one brake on that thrust was a calculation by the budget office that it cost something like twice as much to maintain a professional overseas as it did to maintain him in Washington. I have always been somewhat suspicious of that calculation, but that is the accepted view around here. So that one would have to justify a considerable increase in efficiency to offset the higher cost of having a regular mission.

[CHENERY]

We are, I think, fairly unique, in having such a small proportion of our staff overseas, or away from the Headquarters. It's still, I think, less than ten percent, whereas the Fund has somewhat more. Certainly, the United Nations, the regional banks, and other organizations are much more decentralized.

Now, as far as what one would decentralize, I think there is much to be said for decentralizing the economic work, the reporting and the analytical work in the larger countries on the model of what we do in India or Indonesia. The advantage would be a large-scale improvement in the quality of the analysis. For example, look at the analysis made by a team which comes out to a country for three weeks and has to start writing its report in the second week. Those reports can not go into much depth and that is the bulk of Bank country analysis. It goes over the same ground in a serious but somewhat superficial way, except for the special studies. If I had an opponent present, perhaps he could give you a more favorable view of Bank economic work. But I think the examples of what is produced by people living in the country, working with local economists, with the local researchers and the planning organizations would bear out the fact that a potential improvement in quality does exist for the resident mission staff.

There has been a lot of discussion about which parts of the project cycle could be decentralized, and I am not the best person to respond on that. My impression is that some parts of it can be, and that having an operating representative in countries would facilitate the implementation of the Bank's regular lending work considerably. My guess is that twenty percent would not be an unreasonable figure to move out of the headquarters over some period of time. When we had this discussion earlier, something like that was accepted. But, the period of time was not very specific, maybe ten years, maybe fifteen years on. If we had started then, we would be there now.

ASHER: But you didn't start then.

CHENERY: Well, the number of overseas offices has increased a lot, but the number of people in them is not so large.

ASHER: It's also not clear where they fit into the chain of command, except where there has been a very special negotiation with the President, as in Indonesia.

CHENERY: That's right.

ASHER: You were brought into the Bank by McNamara. He wanted you, and that's how you came in. The process of nominating your successor was a much less personal and a more collegial process. I understand you were instrumental in democratizing this process throughout your career here by consulting your colleagues on promotions, replacements and reassignments of functions and so on. Was this more collegial behavior on your part a natural outgrowth of your previous experience in universities, or your convictions as to how to run a railroad, or your experience in the United States government or what?

CHENERY: Well, the first two. I'm not sure the experience with the United States government was either a plus or a minus in that respect. I think the selection of professionals and the management of professionals by other professionals works better if the staff concerned are consulted. In universities, where being a dean or a department chairman is not the highly prized position that being a Department Director is here, it is quite natural to consult fairly openly.

ASHER: It's war if you don't, isn't it?

CHENERY: The setting here is different. Nevertheless, the principle whereby senior staff would be consulted on other senior employments, or in the case of the appointment of a division chief, the people in the division would be consulted did seem to be welcome and to work pretty well.

I don't know to what extent that is practiced elsewhere in the Bank. It had not been particularly practiced in the economic staff before I arrived, but it seemed to work quite well in that professional group.

Now, as far as the selection of my successor is concerned, I don't remember now whether I suggested to McNamara or vice versa that somebody ought to be drawing up a list of potential candidates well before I retired. The experience of the Fund had been that, when [J.J.] Polak retired, it took a year-and-a-half to two years to actually get a successor in place, and they had some unhappy experiences along the way. To avoid something like that, I took the initiative and pointed out that the time had arrived for somebody to be looking for candidates.

[CHENERY]

I was asked to prepare a list and I put together a group of people, either present or former senior staff members of the DPS [Development Policy Staff], as it then was. We initially canvassed very widely, saying that there were no limitations other than that the person should come from a member country of the Bank. We had a first list of about fifty people, a mixture of inside, outside, academic, administrative, and so forth. We categorized the candidates according to those backgrounds and then consulted more widely with what would now be the managing committee, the Senior Vice Presidents and the President, and then went back and refined our list. After three months or so, we ended up with a list of about twenty-five people which we discussed in some depth with McNamara.

That was essentially the end of the consultative process. The initial hope was for McNamara to make an appointment with Clausen's approval, so that I would retire shortly after McNamara, and my successor could come on board without a gap.

As it turned out, that schedule could not be followed and, when Mr. Clausen arrived, he quite properly wanted to first understand what the job was and then to reinstitute the process of preparing a list of candidates. So, he followed another version of this process. He took our list of twenty-five, asked for other suggestions from his Managing Committee and then appointed an outside panel to review these names and make recommendations to him. The result was somewhat different, but not notably so, from our earlier list. Many of the same people were on the short list and, from the short list, he then chose a candidate.

ASHER: But, the process of consultation, at least within the research and economic staff, by being practiced now for ten years or so, is probably institutionalized?

CHENERY: I cannot speak for my successor, but I would hope so, yes.

ASHER: Well, I know, Hollis, that you want to catch a plane. Let me just give you a final question which will enable you to say anything that you think we should have said, that you would have liked to have said and that has been missed. What do you now regard as the principal accomplishments, satisfactions and frustrations of your years with the Bank? I'm thinking not only of your specific area of responsibility, economic research and development policy, but also your role as part of the management of a Washington based international bureaucracy that has considerable stature in the world?

CHENERY: Well, I think the most satisfying aspect of the World Bank is the opportunity to work with people from so many different countries on a basis where you rather quickly forget about national differences. It was quite remarkable to me, although I spent a good deal of my life working abroad on an intermittent basis, how effectively national differences tend to disappear with a common professional setting. After twelve years, I feel this was a unique opportunity, not only to have good friends from people of many different countries, but also to see the extent to which our national objectives can really be superseded by broader objectives. I think that has been a common experience. So, I would put that at the top of the list.

I think that a second satisfaction is the opportunity to work in a cooperative relationship with people in a number of countries. I had worked as an adviser in a few countries before I came to the Bank, but since then, I have probably visited, for longer or shorter periods, the planning groups or their counterparts in, say, fifty countries. In some cases, on a quite regular basis, others on a more irregular basis. Out of that comes a view of the current thinking about development, which cannot be duplicated very easily in some other setting.

What I have tried to do, given those opportunities, has been essentially to have the Bank operate as a sounding board in the area of research and analysis, not pushing a Bank line but trying to bring out the opportunities for different kinds of applications of economic analysis and their limitations. I think we have had a certain amount of success.

As far as the specific policy directions are concerned, I don't feel particularly strongly about any specific contribution. The work which I have managed to do of a professional nature here has been concentrated on comparative studies, alternative strategies of development. That has been made possible by colleagues who were working in the same areas, having small seminars, working groups, and so forth and again, has been quite satisfying.

The other side of the coin is that as the Bank has grown, it has become more compartmentalized. It's more difficult to have close ties with senior economists and to have the same easy exchange of ideas. That is probably inevitable. We used to have an Economic Committee which reviewed the major economic work all over the world. It's not possible to do that now, there's too much of it. I think the general discussion has been hurt by that because people now tend to become Latin American

[CHENERY]

experts or South Asian experts or African experts and spend much of their career in the same area. The Bank must take an active role and really push people to move around as, say, the United States State Department does. It is inevitable that the consequence of growth is this sort of narrowing of peoples' perspectives. I do think Ernie Stern has done quite a lot to move people around to offset this and I credit him for a good initiative in that respect.

Similarly, policy formulation has gone through several phases. We have not talked much about that process. We originally thought that it would be possible to have one group preparing policy analysis essentially focused on the interest of the President and his senior advisers and have them serve as the sounding board after a technical review which brought in all sides. That, too, has suffered from the same growth. There are now several of them. I think the institution of managing committees is fine, but it has led to a number of subcommittees, so that again the senior management has had to become more specialized. The sort of easy cross-fertilization which is possible with a somewhat smaller group has not been lost, but it has been diminished.

Those are some of the limitations which I have felt increasingly in the last several years, and this has not been particularly connected with whether the President was McNamara or Clausen, but just with the fact that the world has changed and the Bank has grown. In recent years, the Bank has had to run to keep up with the problems rather than being able to take initiatives to the extent that it was able, say, five or ten years ago.

ASHER: Do you see any structural changes that could be made within the Bank which could then keep it on top and ahead, given the rapidity of change in the world and the complexity of the problems.

CHENERY: I don't think that there are any structural solutions. It's much more a question of the individuals who are in charge of particular areas. There are no real obstacles. It has been remarked that a division chief in the Bank really has enormous power if he knows how to use it. He can enlist all kinds of support and, on one pretext or another, he can get that support, whether it is in his budget or just because he goes to his friends. The Bank is a surprisingly flexible organization, despite what looks like a rather rigid structure.

[CHENERY]

The burden lies in maintaining a rather cumbersome procedure of preparing projects for the Board and in the large proportion of time and effort that goes into this somewhat sterile exercise. Once a project has been chosen between the division chief and some middle-level bureaucrat in country X, most of the million dollars or whatever, which is spent on that project in the next year-and-a-half, is probably desirable. But it is not something which leads to more than gold plating the original perception. If this is the activity of the bulk of Bank professionals, then it somewhat limits the scope for more imaginative kinds of intervention. I think Bank staff is intellectually first rate, and many of them would welcome a richer variety of analytical work than they are presented with at the moment.

My good or bad fortune has been not to be involved in what I regard as somewhat sterile work on the project side. I don't see any ready solutions. I think the discipline which the Bank's insistence on standards enforces is on the whole a good thing but it does have that cost.

ASHER: Well, I know you have a plane to catch and you have been a wonderfully informative, candid, patient and cooperative victim. May I thank you warmly and sincerely, both for myself and for the Bank? If you later think of some other things that you would like to say, just call me and we will schedule a further session, unless you want in these remaining few minutes to touch on something else?

CHENERY: No. I think for the moment, we have covered the waterfront. You are very well prepared as an interrogator. Nothing else leaps to my mind. So, I think we might suspend at this point. Thank you very much.

ASHER: Thank you, Mr. Chenery.