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Transcript of interview with

RUSSELL J. CHEETHAM

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Interview by: John Lewis, Richard Webb, Devesh Kapur

FOREWORD

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

Russell J. Cheetham
February 5, 1992 - Verbatim

*[Begin Tape 1, Side A]*¹

LEWIS: You were a key player in the reorganization, and maybe most of all we need to get some guidance from you on what we do about your new part of the world. It's all blown up since we started this history. Richard, why don't you start off on the Philippines.

WEBB: Okay. I didn't know anything about the Philippines, but I went there with Devesh a couple months ago. In just sort of a first blush impression, talking to the people there and here, one sees quite a cycle in the Bank's relationship with the Philippines and the—coming on strong with [*Ferdinand E.*] Marcos after the '50s and '60s when the Bank rather delayed in going in. And I think you arrived there, or at least in a big way, sort of at the peak of the Bank, the growth in the Bank's support for the Philippines, and you were there until the end of the decade. Like so many other places, there were problems developing in '79, '80, '81, industrial strategy reports, the first SALs [*structural adjustment loans*]. In this whole sense--there are a number of questions. One is how much U.S. involvement did you see in the whole scene there, in the Bank's response to Marcos and then at the end of the decade. This is all before—you sort of went out long before it came . . .

CHEETHAM: Well, maybe the simplest thing is to try and put things in context a little bit, and obviously this is a somewhat personal view of the economic and political history of the Philippines and the environment in which we were operating.

I started working on the Philippines at the beginning of the '70s. I guess I first went there in '71, '72 or something. This was before martial law was imposed. The—it was a very brief economic history, as you know very well, probably better than I--they did exceedingly well, in fact, over all the East Asian countries from the start of the 1950s, very high growth rates, biggest industrial base in Asia outside of Japan. By the end of the '50s, like a lot of the import-substitution driven economies, it started to run out of steam. In the beginning of the '60s they started the reform process. In the early '60s--they made a fairly major attempt in 1962, if I recall correctly, a first effort, but it was very partial.

And the entire history of the Philippines, in my view, over the following 20 years at least--I have to confess I haven't followed it much in the last five years or more, and here I would contrast it to, say, Indonesia--but the history of the Philippines was one in which they stop-start the coach, a regular cycle of balance of payments crises that had to do with domestic politics and [*inaudible*] and very impartial efforts to reform, starting basically in 1962. In the easy [*inaudible*] basically unable to make a transition that Korea, Singapore, Thailand, Taiwan, Indonesia in the last ten years or so, unable to make the transition to a much more output-oriented set of policies. And there are all sorts of interesting political reasons for that.

The Bank in the face of this and a whole bunch of other things took a fairly reserved view of the situation in the 1960s. The major crisis at the end of the '60s, '69 I think it was, if I remember, with the campaign and Marcos re-election, and the Bank started

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

to come back in in a fairly big way in the early '70s. The fundamental economic story hadn't changed at that time except they'd brought in sort of the technocrats, kind of [inaudible] immediately after the elections. So you had the [Cesar E.] Viratas and the [Gerardo P.] Sicats and all these people started coming in, with a bit of help from outside, you might say. McNamara went out there and read out the riot act and used all sort of [inaudible] things about it and forced Marcos, whether he really wanted to or not, to bring some of these people into government to try and improve the economic situation at least in [inaudible] economic policy.

Then we had martial law. The first three or four years of martial law there had been Bank influence which was rather strong, for the period in which there was, in a manner of speaking, the first sustained and fairly comprehensive approach to economic reform. For one simple example, in the entire period of the 1960s there was not a single piece of legislation passed in the Congress with respect to taxation--not one in ten years. Every time--there were plenty of bills that were sent up, and they got knocked down every time. Between September of 1972 when martial law was declared and approximately the year--my memory's a little rusty--a year or two later, there were approximately 1,000 decrees issued that had revenue implications of one kind or another for the government. Now, I had a hand in writing some of those. There was a tremendous outpouring of, in effect, legislation in the form of decrees that began to rewrite some of the ground rules. Some of it was fairly spectacular; some of it's mundane. And you'd begin to see in the economic statistics for the first time in 10 or 15 years tax revenues, for example, started to creep up instead of being--I've forgotten the numbers now; 5 percent of GNP or whatever the hell they were--started to be going up a bit.

There were a number of other things that were begun to be put in place in that period of two or three or four years that began to make the Philippines look a bit more like some of the other countries at some stage, that some of the pieces were formed and put in place. So Marcos in this period had given his technocrats a fairly free hand, and we were pretty active along with others in sort of helping out.

LEWIS: You were an advisor to the government? Is that it?

CHEETHAM: Well, I was--it was two things. I was leading the economic missions at the time, up to 1974. And then I went out there--took a leave of absence from the Bank and went out there as the project manager for a regional planning exercise, and I was an advisor in NEDA [National Economic and Development Authority], the new economic planning team, did a few other things as well on the side.

This period of reform where the technocrats had a fair amount of latitude didn't last very long. It started to run out of steam around about 1975, 1976, crudely speaking. One of the reasons it started to run out of steam, in my view, at least, was that--to go back in time a little bit--if you read some of the books that Marcos published, including some of the little paperbacks that he published in the late '60s, with the benefit of hindsight, reading them in 1976 or 1977, you can see there with the benefit of hindsight already some of the elements of what happened subsequently. And my own sort of highly sort of a personal view of that period of economic history and politics in the Philippines was that Mr. Marcos had a pretty clear political game plan, and you can find it in some of his writings in the 1960s. But basically, in a highly

Russell J. Cheetham
February 5, 1992 - Verbatim

simplified way, it was something on the rise. It played a part in--Marcos wanted to break up the power of the local political bosses, much of it rooted in the sort of feudal system that existed in parts of the country, and to bring industry and, you know, growth and so on and so forth, the price of sugar in Luzon [*inaudible*] all these local sort of power bases and basically try to break that up and essentially replace that sort of system with a two or three party system so with one party you really don't . . .

Marcos's political party never had a nationwide power base like the other political parties at the time. I mean, it's sort of a game of trading off local political bosses, each with their own separate power base, to support this party or that party, and everybody changing parties all the time each election. His game plan essentially was to break that kind of system and replace it with more of a grassroots support for a nationwide party. And my own view of what was expected to happen was that to make the transition from martial law, essentially supported by the military, by business interests and the technocrats, which was crucial for four or five years, but to move into something close to--not a one party state, but certainly a system in which one party was pretty strong.

Now, as the forerunner for that, the constitution was rewritten to have a prime minister and a different political arrangement. The prime minister was going to be the leader of that party.

The problem was that Marcos failed to break that local power base. It didn't happen. And because it didn't happen, he was unable to build that party, and by the mid-'70s the legitimacy of his martial law arrangements was beginning to run out of steam. He didn't have an alternative political process to put into place, so he started running out of credibility. And unlike Suharto in Indonesia, to stay in power Marcos . .

[Interruption]

CHEETHAM: Marcos more and more turned to the use of patronage--as most of these East Asian systems are accustomed to--concentrating patronage increasingly on a relatively small proportion of the population, so there was a sort of shrinking of the base that benefited from patronage.

Just as an aside, what's tended to happen in Indonesia, which also uses patronage on the [*inaudible*] system of East Asia, what Suharto has tended to do is broaden the base of those who benefit from patronage, access to economic opportunity, and it's become, in Indonesia, a kind of a very much of a pluralistic sort of system with many, many players.

In the Philippines it tended to shrink. And so you've got sort of increasing alienation among these different groups, the base of patronage tending to shrink and be more and more concentrated among the military part of the system, and so the--his ability then to maintain support for a military, for a martial law regime when this sort of this other political game plan didn't work, started increasingly--it came into question. And it came into question, and the ability then to conduct economic policy started to fall back.

That was the environment in which the Bank was operating. The sort of cycle that we went through, I think, was a period of three or four years where we had great influence, actually helped accomplish quite a lot, '72, '75, sort of into '76. By this time the political arrangements were beginning to sort of fall apart, and the ability of people like Virata and Sicat--Sicat [*inaudible*]--but the ability of these people to keep pushing ahead with political reform increasingly was compromised. [both speaking at once].

LEWIS: Compare this to . . .

CHEETHAM: The Bank—I mean, just to finish the thought—I mean, I--my own view is that the Bank tended to make political judgments about what was going on. I think that was exceedingly naive. I don't think the Bank really understood some of these forces. It did not understand that people like, say, the Viratas and others were beginning to lose their ability to carry economic reform out. Why? Because the sort of the underlying political base in which that could be driven ahead was increasingly in question now, by '79, '80, '81.

LEWIS: I was just going to ask about the two teams of technocrats in Indonesia and the Philippines. Were Virata and Sicat and company in terms of sort of intrinsic competence in the same league with the Indonesian group, or were the differences more that because, as you say, they--the one had support from the top and the other lost it?

CHEETHAM: Well, if one makes a distinction between sort of the technical competence and understanding of those people, there's not much to choose. A bunch of very competent people in the Philippines who understood full well the policy options and why things ought to be done. The big difference is the political environment.

General Suharto, whatever his shortcomings may be, I think understands very well that he led--the vast nation needs to keep on raising standards of living for a large number of people for the political system to have legitimacy and to continue. He understands that very well, and in that sense he's the chief economic architect of Indonesia. And so when it comes to a crunch--and I've seen them; I have a fair amount of rather close personal knowledge of Indonesia for some time--when it comes to the crunch, the technocrats have won most times, not every time but most times. And so you get into some, I mean, very specific illustrations of this sort of thing.

In the early '80s there was the need to adjust energy prices for good and sound economic reasons by a pretty large number. The Cabinet discussion was essentially was like this, I mean, involved a whole lot of people, and [*Nitiasastro*] Widjojo, making the case for a 15 or 20 percent increase in energy prices, and [*Admiral*] Sudomo, the head of security at the time, saying to Suharto, "You can't do it. If you do, there will be people on the streets, and I cannot guarantee the security of country." Suharto listened, and they raised energy prices 15 percent. It had nothing to do with the people living on the street; it had to do with the economic interests of the military. I mean, that was—you know, time and time again Suharto would rule in favor of economic technocrats. It hasn't happened every time, but it's happened most times.

Russell J. Cheatham
February 5, 1992 - Verbatim

That didn't happen in the Philippines. Over time Marcos backed away because of the peculiar sort of power base that he ended up giving himself huge *[inaudible]*

KAPUR: And later been increased--senior management at the Bank, sort of internal memos, said that Marcos is totally in power and sort implying that we should back him. If one sees the Bank sort of a political establishment, that seems to fall, an essential ingredient in the Bank-country relationships, especially *[inaudible]* at the time, how do you see this evolving institution, in a sense of, you know, how savvy has the Bank been in the Philippines and a number of other *[inaudible]*

CHEETHAM: Well, I know I have a prejudice, and the prejudice is basically that we employ a large number of bureaucrats who by and large are politically fairly naive. It's true in every country, not just in the Philippines.

WEBB: John and I were just thinking this morning how much the Bank's relationship with countries and the way it gets draw in, what it does, is more than a Bank/country relationship. It's a Bank/good-guys-in-the-country relationship.

CHEETHAM: Sure. We're in the business, by and large, of supporting reformers. Now that may in some countries constitute a very large segment of the government and is not all that big a deal. In other countries it may be a very small segment of the government, and the interplay between various people and the rest of the government can be very complicated. If we're supporting the reformers and they happen to constitute a very large proportion of the political and economic forces within the country, then in a sense it's fairly straightforward. But when it's not the dominant force, I guess my thesis is that we don't understand a very dynamic turn of events, and in some cases I suspect we understand very poorly because we tend to concentrate only on those people that we need as the immediate interlocutors. So if there is a lot of tension between a segment of the political and economic power base in a country, the reformers, and there's a lot of tension between those and, say, the military, we don't want to talk to the military. We are *[inaudible]* If we know anything at all, it's what we read in the newspapers.

LEWIS: Is there a doctrine against the—talking to the military?

CHEETHAM: Not a doctrine.

LEWIS: When you were in Indonesia you didn't feel *[inaudible]*

CHEETHAM: I had some contact with the military, yeah. But, you know, it's easy for pretty senior people. And, of course, we had a different story.

KAPUR: But it is in all the cases you have to go through the government of Indonesia?

CHEETHAM: Well, they are the government of Indonesia. So you pick up the phone and say, you know, "May I come and see you, general so-and-so?"

LEWIS: Your sort of counterpart, I suppose, is usually the finance ministry, but you didn't feel that you had in any sense to route your messages through finance as you talked to other places?

CHEETHAM: Well, I mean, you know, it's sort of a complicated business. I mean, you obviously [*inaudible*] You have—even among the reformers there is a complicated little dance that goes on. In a gross simplification, you have among the reformers you, say, I mean have the reformers in control of financing and, say, planning agencies or whatever you—they have different shades in different countries—and budget bureaus and central government, central banks, the guys whose job it is in life is to try and keep some restraint on the use of resources. Then you have the reform element in the line ministries whose job in life it is to spend money to get things done. And of course there's always tension even though they're all part of the reform camp. And we, you know, we play up and down that spectrum sometimes. We would support the spenders against the center and sometimes the center against the spenders or both at the same time, et cetera, et cetera. And that's one little sort of sideshow that's going on.

Now except that, apart from that sort of stuff, then there were all sorts of other elements in this, of where these people in general stand vis-à-vis other important power bases in these societies. And it's that part that we tend not to understand so well. I would say most Bank staff have a fairly keen appreciation for the interplay generally among the people we deal with all the time, they are our lending and the economic deploying and so on. We understand less well the interplay between that group and other important forces. We did not understand it well at all in the Philippines.

KAPUR: [*inaudible*] sort of razzle-dazzle in the '78 annual meeting in Manila when the markets made out a spread. Did that sort of . . .

CHEETHAM: '76.

KAPUR: '76. What difference did that sort of make—did people see that all the [*International Monetary Fund*] Fund damage?

CHEETHAM: I'm sure a lot of people got taken in, yes. I was living there at the time. It was quite interesting.

But, yeah, I mean this is an interesting question to pose, I mean, how good are we at bringing in these sort of political pressures in these societies. Well, my answer to that is, with respect to the reform part of the thing, pretty good. We deal with these guys every day and lend them a lot of money and dialogue every day kind of thing. Outside of that, not so good; in some cases, pretty bad. But what conclusion do you draw from that? Do you say, "Well, somehow or another we ought to learn more about these things as they're talking to all these other people." It's not so easy.

KAPUR: And that's also become much more important in the '80s as the Bank has started to do those sorts of things where this becomes even more important to sustain what's lent.

LEWIS: Now, let me ask you a question that sort of probes that distinction. I have—not just since we're been on this project—been telling myself stories and other people stories for years that in the 1970s you got this sort of paradox political development in the Bank, that it was locked into using project loans which were dandy for doing projects but which were not very good vehicles for policy. And it was developing this big head of steam of policy know-how, and Ernie [*Ernest*] Stern was going crazy, and then--manna from heaven!--you get a second oil crisis and quick money, and you invent the SAL, and away we go. Now, as I hear you talk about the Philippines, you were doing policy advising and were talking with Cesar Virata and Sicat and so on. Did you feel the lack of proper vehicles?

CHEETHAM: No.

LEWIS: No.

CHEETHAM: Not in that context. We would have done the same thing and accomplished the same things with or without that new instrument. I wouldn't want to generalize and say that that's not a useful instrument in, at least in some situations. I don't think it would have made much difference in the Philippines. There was a period in time when the technocrats had a fair amount of latitude in pushing ahead with reform, and whether we loaned this way or that way or any other way wouldn't have made much difference. I mean, that agenda was being pursued at about as fast as you could reasonably pursue in the political context of the time. As fast as we could sit there and write decrees and get the goddamn things signed and ramming them down the throats of some of those line ministries and other people . . .

LEWIS: That was an unusual situation.

CHEETHAM: Yeah. It didn't last, you know. Lending instruments wouldn't have made much difference. Then for rather peculiar reasons in the Philippines and the [*inaudible*] it wouldn't have made a whole lot of difference later on, either, because the political support just wasn't there for sustained reform.

WEBB: At the very beginning of the Bank's enthusiasm there was quite a change, wasn't there? You talk about a crisis in '69, '70, and then in '71-'72 you had the martial--I think the Bank was already going strong before martial law. Or did that make much difference?

CHEETHAM: Going strong in what sense?

WEBB: Well, a significant increase in support in the '60s . . .

CHEETHAM: In lending?

WEBB: Yeah. No?

CHEETHAM: It started happening after '72. Look at the lending commitment levels. My recollection is a little hazy, but I think you'll find that loan commitments were running at about, through the '60s and up into the very early '70s, probably no more than—you know, for a while a long run--50 or 60 million dollars a year and then

it had gone up a bit was over 100 million or something like that—I'm a little bit rusty. Then from about '72, '73, '74, we took it up to 200 or 300 million a year. And that increase was not planned in the sense that in 1970 and 1971 we made the decision we were going to take it up to several hundred million a year. It only began to happen after martial law.

WEBB: And what was the relationship that you see between the law and . . .

CHEETHAM: Well, we were operating in an environment where there were a lot of, a sort of a backlog of policy reform measures that had not been attended to in the '60s began to get attention. The first decree that was signed was the reorganization of the Philippine government (it never got fully implemented); the second decree that was signed was the reform decree, it got signed on the second day of martial law. And then within a year there were dozens and dozens and dozens of decrees on tax policy and tax reform that began to have an impact on collections for the first time in 15 years. A lot of other things that began to happen, restructuring of some public enterprises, we began to do serious work on what to do in the steel industry, serious work on the energy sector for the first time [*inaudible*] So but the environment was one in which there was a lot of reason to think that things were beginning to turn around.

WEBB: Was the economic team—it was mostly there before martial law.

CHEETHAM: Just before.

WEBB: Just before.

CHEETHAM: Yes. They were put in place—it varied a bit--they came in at different times, but I guess 1970-71, essentially.

But there was always already tension before martial law in—I mean, you've probably told been this story already--when McNamara was out there in 1972, and there was a lot of, all sorts of—the elections were coming again, and [*Benigno S., Jr.*] Aquino was the likely candidate. And I can remember going to have lunch with Aquino—this is before martial law—at the Congressional building with some of his cronies. And we had a fascinating lunch, talking about what's going to happen if he became president because it looked—I mean, there was a pretty good chance that he was going to win that next election. They had the technocrats trying to sort of push ahead with reforms pre-martial law, having a bit of trouble, as well as the things that they were doing that weren't terribly popular.

McNamara went out there for a visit to read the riot act to Marcos. And there was this lunch with, you know, Marcos and Mrs. Marcos. Mrs. Marcos at one point in the lunch—this was with Virata and Sicat--she pointed to Marcos and said to the old man, "You know why you're losing the local election here in Manila." They'd done badly in Manila. "I can tell you. It's very simple. It's because of these people over here. They're making a mess of this place," and she, I mean, in a loud, aggressive tone, sort of said in front of McNamara about Virata and Sicat [*inaudible*] McNamara was appalled.

Russell J. Cheetham
February 5, 1992 - Verbatim

LEWIS: Was appalled that the first lady had this kind of influence?

CHEETHAM: Probably. I remember saying a year or two later, after I had become very close to some of these people, saying to Alex Malchoa [*ph.*], who was the sort of secretary so-called to the president, that Mrs. Marcos was in the habit of calling cabinet meetings--although she didn't have a cabinet position--had a habit of calling cabinet meetings. I said to Alex one day, "What happens if she happens to call a meeting at the same time the old man calls a meeting?" I said it as a bit of a joke.

He said, "Oh, don't laugh. It happened."

I said, "Really?"

He said, "Oh, yes." He said, "But I'll tell you, we all got together and we decided who'd go to which meeting." [*laughter*] He said, "We got it divided up." That was back in the '60s. Of course she went on . . .

LEWIS: Did you think--who put him up to this, himself to the martial law decision, or she [*inaudible*] put him up?

CHEETHAM: Well, I don't know, purely personally I believe [*inaudible*] his game plan. I mean, she was power hungry and all the rest of it but not a serious player at that time.

KAPUR: In all this, the sort of U.S. role was muted, nonexistent . . .

CHEETHAM: Well, I don't know. If you're talking about formulation of economic policies, not serious.

WEBB: You know in getting the Bank to support, more enthusiastic . . .

KAPUR: Especially in [*inaudible*]

CHEETHAM: Well, I didn't have a whole lot to do with the Philippines in the early '80s. I kept going out there towards the end of the '70s, more in a personal capacity. I'd come back and joined EPDS [*Economic Analysis and Projections Department*] and been doing other things, but I used to go back a couple of times a year and advise some of the cabinet members a bit on this or that. I had sort of an informal arrangement with the country department to keep doing that, go out and sort of doing it in a non-threatening way. But I stopped doing that around about '79, and I didn't follow things all that closely.

LEWIS: Did Cesar Virata's being made chairman of the development committee have any significance?

CHEETHAM: Within . . .

LEWIS: I mean, was a sign of the Bank's support somehow or . . .

CHEETHAM: Within the Philippines I wouldn't give that [*inaudible*]

LEWIS: He was made prime minister, not until '81 or something like that?

KAPUR: '81 or '82?

CHEETHAM: I'm not sure—my memory is a little rusty on that—but I would guess it was around the beginning of the '80s.

WEBB: And you--along with a meeting, your book was published in '76. It wasn't the first such book, was it?

CHEETHAM: That the Bank did?

WEBB: Yeah, on a country.

CHEETHAM: No, there had been others, I mean, going back a long way, actually. They used to do those hard cover things, I mean, years and years ago [both speaking at once] many years ago.

KAPUR: [*inaudible*] report.

WEBB: Yeah, that's right.

CHEETHAM: Back into the middle '50s, I guess. I can't recall when those things started. A fairly long history.

WEBB: How do you see the value of that book?

CHEETHAM: That particular book?

WEBB: Mm-hmm.

CHEETHAM: Pretty minimal. Of historical interest, perhaps, but the impact on policymaking--by the time that thing came out, as I explained earlier, things were already beginning to unravel. It was already—I mean, in the period when I was living out there for approximately two years it was already getting more and more difficult to get good policy decisions and to make them stick. Alex Malchoa [*sp*] was somewhere [*inaudible*] The power base of the technocrats and the cohesion in that military-commercial-technocratic three-legged stool that essentially supported martial law was beginning to unravel in part because of the way patronage was being used and so, instead of these three interest groups all sort of coalescing in some fashion, began to sort of divide.

LEWIS: What were the three groups, again? Military . . .

CHEETHAM: Military, commercial, and business interests and technocratic. Now, the commercial interests—I mean, you know about that in the Philippines—is a particular kind. Those people who got control of the business sector, manufacturing and commerce and so on, are a limited number of very important families and by and large they all came from the land. These were the families of the landed aristocrats.

When the industrialization process got started in the 1950s they moved off the land. And through this system of economic regulation and control of licensing, they're the ones that had the resources to sort of capture that process. And so you had the Ayalas and all of these families moving in off the land, getting control of the industrialization process with the enormous amount of rent-seeking and profiteering that went with it. And so you have your 20 or 30 or 40 families that have a rural agricultural base, moved in and got control of the industrial system, and they stayed in control of it. And that's Mrs. [Corazon C.] Aquino's problem today. It's still the same 20, 25, and behavior hasn't changed.

The big problem now--and I'm shooting from the hip again--but a lot of these families over time have (again, a little bit unlike Indonesia) many of those families in the meantime have built up enormous asset bases overseas.

LEWIS: These are the built-in, right?

CHEETHAM: Yes. And so, you know, in the last 10 or 15 years, you tried to impose significant changes in economic policy and expect these families to adjust their economic behavior when they're sitting there on an enormous asset base overseas, they may or may not change their *[inaudible]*

LEWIS: A quickie question along, a little bit along--do you think that the Bank had a chance and missed it to strengthen Mrs. Aquino's hand to go for serious land reform?

CHEETHAM: While she could still do it by decree? I'm pretty skeptical.

LEWIS: Are you?

CHEETHAM: We gave it a good shot in 1972, '73, and I think that circumstances were as good then and the conditions were as good then as subsequent. We did an enormous amount of work on land reform in '72, '73, but those local power bases are strong. It's very difficult.

LEWIS: When you say you did a lot of work, did the, was the institution, the headquarters here, engaged in that side of it?

CHEETHAM: Yes, basically, the sort of things we did--the government wanted us to do a lot of lending, and we ultimately didn't do it. In fact, the present secretary of finance in those days was the head of the land bank, who was sort of to spearhead a land reform program. He was a good guy. He came, had originally come from the central bank and Cesar Virata removed him from the central bank and put him in charge of the land bank, and said, "Now I want you to implement land reform." Except there's this guy, an agrarian reform minister, who is a bit of a crook, *[Conrado F.] Estrella*, who wasn't so keen about it.

But the work that was done at the time, the management had collected, the government collected, had access to reasonably decent information on the number of tenants and the patent, the land holding and the sizes and all that sort of stuff, by crop type, licensure and co-finance and all that sort of thing. There was a tremendous

amount of detailed work done on how much could be divided up, given the rules of the game that they had sort of settled on, how much you could pay and all that sort of stuff. A lot of very detailed analysis and calculation was done on the macroeconomic impact of monetizing, say, if you want to sort of pay off all of these people these millions and millions of dollars in order to make the transfer and what was the macroeconomic impact of that on the balance of payments and all that sort of stuff. How much of that would inflation *[inaudible]*? What sort of schemes might be developed to reabsorb that injection of cash into the system? And how might we redesign some lending instruments? And what sort of agricultural credit programs could be put in place to be made available immediately to former tenants and so on? And the design of a whole lot of detailed agricultural operations that would support the program occurred in about two years, a lot of work, very detailed calculations: the cost of the program, the sorts of interventions that could be applied and supported and so on. Ultimately it *[inaudible]*

KAPUR: But did the Bank *[inaudible]* to back it up with loans . . .

CHEETHAM: Not quite explicit. Cesar wanted us to lend 40 or 50 million to finance the land transfers. We said no.

But he said, "Okay, then help me figure out how much I've got to inject into the economy to finance these transfers, how much is got to be cash and how much could be in deferred payments [both speaking at once] and so on, so we minimize the *[inaudible]* impact. And in that context are you prepared to design a series of projects that will support the process through agricultural credit and so on?"

And we said, "Yes."

So we did a lot of work designing some other sorts of interventions that would be in companion. I've forgotten the numbers now, but they're going to have to spend 200 million dollars and he's going to sort of pay for 20 or 30 or 50 million dollars of the transfer with cash and the rest of it in all these sorts of fancy bond schemes that would *[inaudible]* impact on the capital market.

LEWIS: McNamara was on for this?

CHEETHAM: He was willing to go along with it.

LEWIS: Who was the vice president for East Asia then?

CHEETHAM: That was Bernie *[Bernard R.]* Bell, I think.

LEWIS: Was it Bernie?

CHEETHAM: Well, yes and no. Bernie came back from Indonesia in 1972. He had just taken over, I think, when we started in on that. He must have come back about the time of martial law; went to Africa for a couple years; then came to East Asia, I guess, in '73, '74. *[I. Peter M.]* Cargill was [both speaking at once]

LEWIS: Peter was?

*Russell J. Cheetham
February 5, 1992 - Verbatim*

CHEETHAM: Yeah. He was my vice president of the region.

LEWIS: And he was on for this? No! I can't believe it! [laughter]

CHEETHAM: I don't know if we ever talked to him about it. [both speaking at once] Ray [*Raymond*] Goodman was the programs director at the time, and Ray was pretty heavily involved in it.

LEWIS: This is enlightening. I've had the impression that everybody sort of figured that land reform wasn't on in . . .

CHEETHAM: Sorry?

LEWIS: I had the impression that everybody in the Bank sort of figured that land reform was a good thing but it wasn't on, politically, at that time. That's what you get if you read *Redistribution with Growth*. There are some people that have, some of the authors, who are, seem to be favorably disposed to land reform, but the majority views or the [*Hollis*] Chenery views seem not to be, that, you know, that you couldn't do it so we have to look around for other ways to reallocate assets.

CHEETHAM: We were up to our eyeballs in it in the Philippines. We weren't prepared to finance the transfer.

LEWIS: Yeah, that's understandable.

CHEETHAM: We were prepared to provide wholesale [*inaudible*] project to support. No question . .

[End Tape 1, Side A]

[Begin Tape 1, Side B]

CHEETHAM: I hired her as a summer research assistant in 1976. Because she knew a little about land reform, I said, "I want you to work full time for me as a research assistant on land reform." And she spent the first year of her life as a part time research assistant.

WEBB: Shengold?

CHEETHAM: Ellen Shengold. S-H-E-N-G-O-L-D.

LEWIS: And that didn't go because Marcos wouldn't buy it?

CHEETHAM: Well, the land reform itself didn't proceed on anywhere near the scale that we had all calculated. I mean, I had gotten 70,000. We figured that sort of -didn't happen. I mean, the political opposition to these transfers was quite strong. And so a lot of these guys that had ten hectares of rice or five hectares of rice . . . It didn't happen.

LEWIS: So did the proposal that the Bank make some of these reinforcing or supporting loans, did that also . .

CHEETHAM: We did some of it but not in support of land reform. We did some agricultural lending and so on because not too long after that [Arturo R., Jr.] Tanco, the agriculture secretary, launched this sort of rice intensification program. So we did agricultural credit in support of that, and it tended to sort of a mix-it-up with the progress of land reform, but in fact my recollection is that it was more public relations than substantive in those days.

LEWIS: We've barely gotten past the first of our five subjects! You know what they are. We've got to come back and talk to you about Indonesia. Let me just ask: you have probably a longer--except for Bernie Bell--the longest and heaviest identification with Indonesia of anybody in the Bank, I guess. We all went there as complete novices, stayed a week because we figured that--longer than we stayed in the other countries but this is a most important relationship--and were totally fascinated. We thought all that has been said about the technocrats seems to be true, except there's more to tell.

CHEETHAM: How much time do you have?

LEWIS: No, we really don't know what to make of, to tell you a bit, that Widjojo--these guys had gone on to the Philippines--gave me a great lunch at his house with his new wife. My wife came along and a couple of people from the Harvard Group, and they had one of these lunches with the conical yellow, you know, things, and Mrs. Widjojo served me. And the house is incredible, absolutely outstanding. There are several full-length portraits of your hostess there, and it's just reeking with affluence. And at the end it, Widjojo said, "Professor, there's one more reason I wanted to tell you why we like the World Bank in here. It's to keep out corruption." Now, what do we make of this? I mean, this is a terrific system that is awash, it looks like, with corruption.

CHEETHAM: Yeah, well, I don't know. What do you say about it?

LEWIS: Has it been always that way, sort of?

CHEETHAM: Yeah. I mean, I've worked in almost all the East Asian countries now on and off for fairly long periods of time. Is Indonesia any worse than some of the other countries at various points in time? I would say probably not, probably not. I mean, you find outstanding examples in every one of the countries I've worked in.

The--there are interesting differences. You know, one of the things--it's not a comment on what one sees in an individual house. I mean, there are certainly very opulent houses in Jakarta as there are in Korea in the '70s and the Philippines and so on and so forth, Thailand. You find them in every one of these societies.

[REDACTED]

Russell J. Cheetham
February 5, 1992 - Verbatim

KAPUR: No, the Bank in Indonesia. There's a family role in the *[inaudible]* corruption. The family *[inaudible]*

CHEETHAM: I don't know. I mean, there's a lot of stuff in the popular press, and there are certainly--they've had a pretty high profile in some industrial projects and some *[inaudible]*

There have been some problems in some Bank projects that I'm aware of. Some of the more, the better ones, better known ones are *[inaudible]* ones we've actually loans, but where we've done work. A few that I can think of, we--the main problem that we had dealt with *[inaudible]* in execution.

But I mean there's been a peripheral sort of a bit of exchange with this toll road thing where we've taken a stand on policies on toll roads. We haven't actually *[inaudible]* When I came, we'd not actually done lending in this area, we're basically not *[inaudible]* but it's being done.

KAPUR: *[inaudible]*

LEWIS: We had better go and book again, huh?

[End Tape 1, Side B]

[End of interview]