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Transcript of interview with

<u>WARREN C. BAUM</u>

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[Begin Tape 1, Side A][1]

BAUM: I didn't come onto the scene until '59, which was relatively late in that period. I didn't really get into management until '64.

LEWIS: I have sort of a, almost a—it's funny to **s**tart with a footnote, but in that, in telling how you came to the Bank, you said in passing that U.S. bilateral aid was already in decline. I just was curious about what, in what sense you felt that at that point and how you found the contrast from . . .

BAUM: Well, I guess there were several stages in the decline and people came on board at different stages and had different perspectives on it. To me the *[Harold E.]* Stassenization process which I went through marked a critical stage. That's when a lot of first class people left the organization, the introduction of politics into the process. I don't think it's ever--I'm sure it had better days after that and ups and downs, but to me that . . .

LEWIS: You also had an administrator that, *[John B.]* Hollister, who it sounds like didn't believe in foreign assistance.

BAUM: Yes. No, Paul Hoffman was very strong, but some of the subsequent administrators were nowhere near as strong. But I found when I came to the Bank that I had optimistically assumed that having worked for four years on the Marshall Plan, which was a fairly effective organization, and successor organizations, that I would fit right into the Bank; and I found in fact that my experience was almost totally irrelevant. The Bank was a unique organization which certainly bore very little resemblance to the bilateral aid agency which I had been familiar with, and it took me a long time to become at home with the way in which the Bank did its business. I don't know what other organizations might be closer parallels to it; perhaps investment banks might be closer parallels, but the Bank just didn't operate the way the AID *[U.S. Agency for International Development]* or ECA *[U.S. Economic Cooperation Administration]* did--the very centralized management, little things like that. Everybody wrote memoranda to the files. You didn't write to people; you wrote to files with copies to people, and when you addressed somebody, he was always "mister" and you dropped the "mister" from yourself. At the Board in particular, they had--it was a British style of management, not an American style of management. The Brits were very much in positions of dominance in the early years, and they imposed this style on the way in which the Bank did its business. Plus, I found a great deal more review of anything that went on in the institution than had been happening in the rather free-wheeling days of the Marshall Plan--very tight bureaucratic control and very centralized organization.

LEWIS: Well, that ties into something you said just a moment ago about the employment vis-a-vis the field. That's always been a contrast between the U.S. aid programs and the Marshall Plan. I think you *[inaudible]* most in the country missions. It's always been true, and the Bank has been at almost at the other extreme

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

in terms of--you must have reflected, and you got to positions of great seniority in the Bank, so you must have a view of that, I mean of the—is, has the Bank been organized the right way all this time in terms of center/field operations, you think, or . . .

BAUM: Well, having a resident board of directors representing countries I think was a major factor and reviewing every loan operation I think was virtually impossible until they gave the degree of authority to the field which AID missions had. If every loan operation had to be processed centrally and defended before a resident board of directors which was interested as clients in the content of every operation, I think this set of circumstances, perhaps reinforced by the personalities of some of the early presidents, but I think it largely moved the Bank in that direction, but it's had major implications for the way in which we've done our work.

I'm here to answer whatever questions you want, but from my perspective there is a central theme which runs through my whole experience, and that was the projects program conflict--tension--whatever. And I remember that one of the first things I was told when I came to the Bank in 1959 is that when you--you've probably heard this many times--when you go to the field, you get your ass licked; when you come back to headquarters, you get your ass kicked. And even then this was--when you went to the field you had a great deal of authority because there was no resident mission. You were the Bank in the field; you were the voice of authority and had a great deal of latitude. When you came back you were the low man on the totem pole, and you found that your section chief and your division chief and your department director and your vice-president and the Loan Committee and the Economics Committee and the president and the Board went over everything you did with a fine-tooth comb, and in the end you saw perhaps little resemblance between what you did in the field and the final product. This has been a central feature of the Bank's operations, I think, throughout its history. In headquarters Bank staff have found that what they have done has been very closely reviewed, and this review has been a constant source of discontent on the part of staff and friction between the people doing the work and the people doing the reviewing, and a lot of the themes of reorganizations have been progressively trying to deal with this friction in a variety of ways and with a variety of successes. The '72 reorganization was a major effort; then '86-'87 one carried it even further in an effort to deal with that problem, but certainly this has been a major characteristic of the Bank.

And another element--and then I'll stop my lecture and start answering questions--is that because the Bank has been a headquarters organization but doing field operations, it has had to rely on the written report as the principal vehicle for instructing people in headquarters as to what was going on. Senior people went out in the field but they couldn't absorb the details of individual operations, so the written report--the economic report, the appraisal report, the supervision report--have been the principal documents on which the Bank functions. Now bearing in mind, number one, that the majority of the staff do not have English as their native language. That majority got larger and larger as the Bank progressed and the original coalition of Americans and British staff got seriously diluted, but more and more it was true that the people writing these reports in English—which was the only language they were allowed to write them in--were not English-speaking people. Secondly, bear in mind that they were not trained professionally to write reports. The majority of the staff were project staff and engineers, financial analysts, accountants and so forth have not with rare exceptions made emphasis on writing reports in the course of their academic training or their field work. So to sit these people down and ask them, expect them to produce reports which were then going to be very closely supervised by their superiors and people in parallel to them all through the hierarchy was a constant source of frustration, inevitably, given this set of circumstances. And then the reviewers turned out to be people outside the hierarchy, as they did after '72. Until '72 you had the technical operations departments and the area departments, and an appraisal report would be reviewed by the technical operations departments at various levels in the management, but at least they were all part of the hierarchy. You were being reviewed by your superiors. But after the reorganization of '72 when they set up the central project staff, which I was responsible for, apart from those small departments which we ran operationally, our major function was functional control and review of the output of operating departments over which we had no responsibility, and that greatly increased or at least put a different dimension on the tensions. Before then the tensions were projects department one against area departments. Then it became central project staff against the various regional staffs but with the difference that we were then outsiders. We reviewed them, but we didn't pay their salaries. We didn't promote them if they did a good job. We were just an obstacle between them and their own chain of command within the region. And that set up a series of tensions and discontents which certainly fed into the reorganization of '86-'87, which made a major step in divorcing the functional control from the operating staff.

WEBB: It went on for a long time.

BAUM: It went on from '72 to '86. That's right.

LEWIS: I don't want you to stop the lecture because it's going great, but I've got one question you remind me of. When you took up the central project staff work as the head of it--first number two, I guess, then the head of it . . .

BAUM: Correction. Head of it when I became vice president of it because that was after the reorganization.

LEWIS: Okay. All right, all right. And as you say most of your work was a review of work done in the regions where you had project staff regionalized, at just about the same time OED *[Operations Evaluation Department]* got started.

BAUM: That’s right.

LEWIS: Now it sounds as if almost as you say that, that it's a kind of overlap or redundancy between the two. Was there ever any thought about that?

BAUM: There was certainly a problem, although it wasn’t--the overlap wasn't enough to mention, because we were doing ex ante review, and they were doing ex post, and ex post was five to seven years after the project was sent to the Board. So there was a mix. But they were throwing up lessons from their ex post review; we were throwing up questions from our ex ante review. These had to be researched to some extent; they had to be made operational and used for policy guidance if they turned out to be serious problems. And in a sense we and the regions united against

OED. They became our common enemy. Whereas we were the enemy within the operations complex, they were the enemy outside. And we bore the brunt within the operations staff of fending off OED--mind you, I was a very strong and still am a very strong supporter of OED. I think it was a marvelous idea of *[Robert S.]* McNamara's and it's been an invaluable aid to the Bank, but there was permanent friction between any one of their reports and the views of the region, including ours, and particularly when they did their policy reviews; they would in effect be going over the same subjects which we were doing policy reviews on, and we would have knock-down, drag-out fights over jurisdiction and perception and conclusion. We seldom agreed with their conclusions.

WEBB: Did they ever win any important battles?

BAUM: I guess we both won some and lost some. That depended a lot on personalities. Mervyn Wiener, for example, when he became head of OED, he was very diplomatic and he found ways of euphemizing the differences so that OED always in the last analysis could say what they wanted to say. But frankly, and this will be a very prejudiced point of view, I thought the quality of their analytical work in the policy area was very poor. And it was less a matter of arguing with them on legitimate differences than pointing out that they had just done sloppy analysis, that these things didn't hold water. And Mervyn, coming from operations and being more intelligent than some of his immediate subordinates, would seize these points. So I would go to him and say, "Look, these are all the things that are wrong with this report." And he would say, "Let me fix it." And it would come back three months later with a 60 percent improvement, and we wouldn't argue about the remaining 40 percent. But they reserved the right to present their report with our dissents to the Board, and they would then defend it and we would defend our position, but the Board highly valued them. The Board thought that they were a tool to use against the staff, and the Board thought of OED as their instrument and one of their entrees into the Bank, and this became a very important part of the whole process.

LEWIS: OED's style was very much a function of the director general, then? The way they were perceived was quite a bit a function of who was the director general, is that right?

BAUM: Well, I think they prized their independence. They reported to the Board through the president in two lines, one dotted and the other firm. It was a very peculiar bit of administrative organization. But the Board felt that the OED director reported directly to them and was accountable to them. The president maintained that there was another line of command, but he, McNamara, who invented it, was very careful not to overrule OED on major matters, probably because he thought that would get him into trouble with the Board. So the brunt of doing that fell upon me and my staff.

WEBB: Who was the first head of it?

BAUM: I'm bad on names.

LEWIS: Oh, look, I am, too. Well, that's all right. But Wiener was . . .

BAUM: Shiv Kapur was the man who I thought had anti-staff sentiments which . .

LEWIS: Oh, really?

BAUM: . . well, we felt that inevitably people in different parts of a bureaucratic organization adopt the coloration and point of view of the people they are working for. When I worked in programs, I had a program attitude. When I went to projects, I had a project attitude. This is inevitable. The OED attitude was essentially they would make their careers by proving that the Bank staff was wrong. If they kept writing reports saying, "Bank staff did a marvelous job on project X”--which we didn't--but if that was their bias, they would have been out of business very quickly, so that their incentive was to point out the things that were wrong. Ours was to defend everything which we did and deny we ever made any mistakes, and somewhere between those the truth lay, but it was a--particularly on the policy documents, it was a continual process of argument with them to end up with reports which were more balanced.

LEWIS: And so some of the burrs and sharp corners that Wiener rounded off, Shiv was responsible for?

BAUM: It was a kind of "good cop/bad cop" routine, and I don't know if they did it deliberately, but Shiv was the bad cop. He would come up with these outrageous findings, and Mervyn would step in and be judicious.

LEWIS: I wonder, when Shiv succeeded to the job, was he still perceived that way, do you know? He's an old friend of mine, so I don’t--but I don’t sense this volume at all, actually.

BAUM: Well, he was in it only temporarily. I think it was recognized that this was a way of making a political gesture, of bringing in an Indian, bringing in an LDC *[less developed country]*, but he was close to retirement, and he was only there for a couple of years. I suspect when he had to be the good and bad cop that he had to act more responsibly. He'd been around a long time by then. Probably some of his own rough corners had been smoothed off in the process.

WEBB: You said this was McNamara's idea on OED. Was this really something that came out of him or was he, was it a tactic vis-a-vis the U.S. Treasury at one point?

BAUM: No, I think McNamara took project work very seriously, and he took the Bank's operational work very seriously. He was convinced that an external independent audit was a major element of quality control and accountability, and I think he thought of it on his own. The GAO *[U.S. General Accounting Office]* and the U.S. government were always talking about audits, and he may very well have also felt that this was a defensive maneuver. If he could show he had an internal, independent, professional audit, this would get the GAO off his back. And that certainly was a motivation. But had that not existed, I think he would have felt that in the interest of accountability he wanted to have that kind of tool.

WEBB: I'd be fascinated to get back to the project program.

BAUM: Okay, I guess the missing link in here, and I don't want to repeat things which you'll have had a chance to read, is the recent reorganization. That was just going on when the interview took place, and I was on the verge of retiring from the Bank, if I hadn't already done so by then. But let me talk about the way in which the CPS *[Central Policy Staff]* and then OPS *[Operations Policy Staff]* regional relationship evolved in its later years. It began under Burke Knapp--the reorganization—and I think we found our niche. We were quite comfortable, CPS, in it. We went to the Loan Committee infrequently, but when Burke was chairing we'd win one-third of the battles, which I think was probably a reasonable proportion. But the fact that we could go to the Loan Committee--the fact that I was a permanent member of the Loan Committee, as well as the Statutory Loan Committee--is what gave teeth to CPS. Otherwise our advice could have been largely disregarded.

But we had a very ambivalent role vis-a-vis the regions. We were advisors, and we had the senior people, as I mentioned. The agriculture staff had been spread thin among six regions. We had the best irrigation advisor; we had the--in fact, we had the division chiefs of the old Technical Operations Department. They regionalized the staff. We centralized the division chiefs, who were the senior people. So we had the best irrigation man; we had the best crops man; we had the best credit man; we had the best livestock man; and they would build up small review staffs. These people began with more experience of operations than people in any region did, and it quickly multiplied because they had been looking at the output of six regions, whereas each region would only see its own work and would not see the work of the others. So our people had, I think, a very important senior role as advisors in ensuring the quality of the end product, and I guess an underlying thesis of everything which I'm saying--which is in my mind central to the Bank--that given the size, complexity and importance of project work, you could not expect a single set of staff to go out in the field, appraise a project, come in, write a report, and produce the kind of quality work which the borrowers deserved, whether or not the Bank required it. The projects were complex, multi-dimensional, and required a level of experience and expertise which a single set of staff--one engineer, one financial analyst, one economist--just do not possess. In other words, I'm saying that the review process is essential to achieving the quality of work which projects work needs and justifies. And after reorganization the regional staff was spread sufficiently thinly that they could not within themselves perform the level of quality review which was necessary. So CPS in my mind had a vital function in reviewing those documents, commenting on them, and trying to improve them.

LEWIS: Let me ask a question I shouldn't have to ask, but--CPS and, say, the agriculture part of it, that's what Monte *[Montague]* Yudelman headed?

BAUM: That right. Jim *[Lionel J. C.]* Evans first, Monte Yudelman second.

LEWIS: But I wondered whether there were two different sets of sectoral . . . ? No? Okay.

BAUM: But this put us in a very difficult role vis-a-vis the regions because we were two things: we were advisors and we were policemen. And this is a very difficult role to combine. Had we been only advisors we would have gotten along very well with the regions. The good people would have voluntarily sought our advice, as they did, anyhow. The bad people would have felt that they didn't need it or want interference in their operations. But they didn't have the choice because if they didn't ask for advice, they got it anyhow, because we had to sign off on the yellow cover or the green cover appraisal report. And if we thought there was an issue, it would come to me and I'd raise it at the Loan Committee. So this was the policeman function.

Our people much preferred to be advisors rather than policemen. It’s a much happier job to perform, and they felt they were colleagues with their ex-staff in the regions who would much prefer to maintain that collegial relationship. But they’d have to be policeman also to the extent that their advice wasn't followed.

And in the end I had to decide whether or not I'd blow the whistle and go before the Loan Committee. And this was where these two functions were difficult to operate satisfactorily and in the end enforceable only through our Loan Committee function. When Ernie *[Ernest Stern]* took over, the CPS relationships with the regions and within the operations complex changed somewhat--I've got to talk about personalities.

LEWIS: Oh, please, yes.

BAUM: It's essential to the process. I assume you will distill this into objective prose. But Ernie was not a project man. He had had no project experience in the Bank before he became a regional vice-president and then a senior vice-president, whereas Burke had lived through a long time when projects were important and--he sat over the whole operation long enough he had a strong feel for both sides of it.

We always felt that Ernie's sympathies were with the regional side of the operation rather than the project side of the operation. However, there were certain other--you know Ernie fairly well, I would think?

LEWIS: Very well.

BAUM: Okay.

LEWIS: He worked for me.

BAUM: Right. Well, I have very ambivalent attitudes toward him, as I will reveal. I think he's the brightest staff member who ever came through the institution. Either he or McNamara in different ways were the brightest people there have ever been in the organization, and I think he's made tremendous contributions to the institution. He quickly mastered project work, whether he was interested in it or not. What he was interested in was not producing low quality work; this he couldn't tolerate. And he also discovered--and this is another key dimension of it--that the Board was very much interested in what we produced, and the Board would sit and review every project. As I mentioned in detail in the interview which I had, so I won't repeat it unless you want to pick up points on it, as relations between the Board and the staff deteriorated--and Ernie contributed to the deterioration as well as McNamara, because both of them had a style which was not conciliatory toward people whom they understood were much less intelligent than they were. The Board was trying to pick apart the appraisal report and find as many mistakes with it as they could, and they didn't play the game by the rules, which were to ask technical questions in advance. They would save all their ammunition to try to embarrass the management before the Board table. Well, the people who were embarrassed were Ernie and me.

But as time went on, Ernie took over my role--which was one of my personal discontents between us. Under McNamara I was--the seating arrangement was McNamara and Knapp and myself at the Board table, and all questions on projects were referred by McNamara to me. When Ernie joined the table, he would progressively intervene and take over the answering of questions, and the difference between projects and operations when a question comes before the Board is a dim one anyhow. But Burke was perfectly happy to sit back and let me field most of the questions that the directors raised. Ernie more and more wanted to take over that role, which he did because he had the authority to do so. But that meant that he had to explain all the deficiencies in the appraisal reports, and when he became aware of them, he started riding the Bank staff very hard, and he rode the regional staff even harder than he rode CPS, and he began to value the functions of CPS in saving him from a lot of embarrassment. So in the end he became a supporter, I think reluctantly but effectively, of the CPS role. And when we had periodic reviews, as we would have every couple of years because the staff were always chafing under this regimen of external OPS/CPS review of their documents and unhappy about the process, they would fine-tune it and they would say that the review of the yellow cover is optional rather than mandatory or in advance we'll try to identify a certain number of projects which look routine and not have a CPS review of them at the yellow cover stage. But these were not major changes in the process.

Ernie had maintained the essence of the CPS review as long as he was in control of it because he felt it was essential to preserving the quality of the work which he had to defend before the Board. But we had still, I would say, greater frustrations under Ernie than we had under Burke. We would find this kind of phenomenon repeatedly: the project staff in the regions--and I mentioned that the tension which had formerly existed between the monolithic projects department (which was actually called the technical operations department) and the regional departments became internalized when the agriculture staff was split among the regions in the technical department, and then the technical department of region X would have with the area departments of region X exactly the same tensions which we had formerly had between projects and programs. And it was a perfectly legitimate tension, as I tried to prove out--there are two different ways of looking at the same problem, and they had to co-exist if we were to do our job properly. But I felt that under McNamara and to a lesser extent under Stern the scales were tipped in favor of programs and doing things more quickly, reaching the operational targets on which McNamara was very strong, even at the expense of cutting corners on project work.

And this is a very important factor, I think, in the evolution of the Bank, that because McNamara put so much emphasis on programming and targeting and reaching targets and in the end because he held Ernie responsible for achieving them, we felt that at the regional level the legitimate tension between two conflicting points of view tended to be resolved by the regional vice-presidents who weren't supposed to do it in favor of "let's get ahead with the project and avoid those issues which are going to give us endless arguments with the borrower" because we were going to insist on better staffs and more stringent changes in management or reorganization of the project entity or whatever things were in conflict. The project staff of the region would then come to us behind the back of their management and say, "We're unhappy with the way in which this is coming out. Please help us to fight our battle." We would then go to the Loan Committee to fight their battle, and we would then discover that the project staff who had asked us to come there would then be aligned against us because the regional vice-president would have very carefully mustered his forces to come before the Loan Committee. Each of these was a major confrontation; it didn't happen that often. They would have reviewed the entire project; they would have come up with a whole set of arguments and facts which had never been disclosed to us; and we would find that the people who had asked us to defend them were now on the attack against us with a new set of arguments or the old set of arguments in different clothes--which we found a very annoying process and we found that . .

LEWIS: What was the motivation of these people? The regional project staff?

BAUM: Well, it was conflicting. They wanted to produce good projects, but they didn’t--we didn't pay their salaries, and this is terribly important. I don't mean that facetiously. Their bosses were the regional management and eventually the regional vice-presidents, and all of their work—all of their performance--was reviewed by them not by us. And so when the regional vice-president said, "Okay, we've got to win this argument," and you always have to win the argument, then they had to line up with him. And Ernie, whereas I said we would win one out of three with Burke, we won one out of five or six with Ernie, and this was not a satisfactory ratio. We felt that we were losing a lot of our own internal credibility with our staff. You can't persuade them to hold the line in defending project quality, which was our function, against the other points of view, which were their function, if in the end they knew we were going to be overruled at the level of senior management.

WEBB: Was this any kind of crude measure of the trade-off that occurred between volume and quality, those two figures?

BAUM: It’s very—I can’t--I didn't do a statistical analysis. These are impressionistic numbers to illustrate a point.

WEBB: But would there be any truth at all in that?

BAUM: What happened was this: McNamara believed in functional control. He believed in quality. He wanted to produce quality first. As I mention in here, he didn't think there was a conflict, and he refused to believe that there was a trade-off between them.

One episode which I think is very symptomatic which I didn't mention before: the projects complex had a weekly staff meeting of all our department directors and senior advisors, which I chaired. We produced minutes, and we circulated them around the Bank, and they had a very wide audience because none of the regions had minutes of their meetings and this was the only way in which the operational complex knew what we were thinking and what important issues we were facing. I would always report to the meeting on what the Board was up to, what had happened in recent projects loans, what had happened in recent Loan Committee meetings and so forth—and remember, only one region attended the Loan Committee so that the other five regions did not know what happened--so this became a very important source of information and was read by all the Bank staff and was read by McNamara.

And in one of these minutes (which I went over carefully and sanitized only slightly) there was a lot of discussion of pressure to lend. And pressure to lend was what everybody in the Bank was feeling because McNamara was saying, "You've got to do more. You're doing 120. Next year you're going to do 140 and the year after that 160." And it became circular because our borrowing program was predicated on our doing a particular volume of lending. So we borrowed the money and then if we didn't reach the lending targets, we hadn't justified the lending program; we hadn't justified the IDA *[International Development Association]* replenishment, which was predicated on our regional level of operations. So as time went on, the more we programmed and the more we committed ourselves to targets which were ambitious to justify IDA replenishment, to justify capital increases, to justify a borrowing program, the greater the pressure became on the staff: "You've got to reach these lending targets." And nobody said, "Forget quality." Nobody would say that, but you couldn't do everything, and this was what went by the board. So somewhere in one of these minutes I mentioned pressure to lend because it was on everybody's mind. This was the only time the minutes came back from McNamara with a marginal note to me: "Warren, there is no such thing as pressure to lend in the Bank." I think I may still have that! I saved it. It was such a classic.

He denied the reality of what was one of the most important phenomena going on under all of his--and as I said, in the long run he had more of everything. He had better quality. I'm convinced he produced, he made possible a better quality of project than we would have had otherwise, and he certainly had a larger volume. And he led us in a lot of directions, but he caused us a lot of grief at the margin. When you have to decide: "Do I spend another month by going back and sending another mission to research this better? Do I insist on getting the detailed engineering complete and get firmer cost estimates so I know what size loan I should be asking for? Or do I meet my June target?" And in this conflict we found ourselves more and more on the short end.

One decisive event was, I guess, about the middle of Ernie's reign. There was a major shortfall in lending targets, in reaching lending targets. And the Board had not been advised that this shortfall was coming, and they suddenly found themselves at the end of the fiscal year with a serious shortfall below the targets with no advanced warning that this was going to take place--and mind you, every year we had terrible bunching and a frantic effort to get out operations in the last couple of months which is when the worst tension and the worst slippage in quality took place--but despite that there was a major shortfall which terribly embarrassed Ernie vis-a-vis McNamara and the Board and led the Board to take a major step forward in exerting greater control over the operations of the Bank. And that's a major thesis which I'm sure you'll want to pursue in your history, the evolution of relationships between management and the Board and the increasing alienation between the two and the increasing assertion of a major role in Bank operations by the Board.

KAPUR: Was this in '79 or '80 or . . .

BAUM: I'm terrible on dates, but you'll be able to . . .

LEWIS: That's something I've been wanting to ask you. In this contrast between Burke's reign and Ernie's reign, Ernie with McNamara was there only '79, '80, '81. It was a rather short time, but I wanted to ask whether this Stern performance then continued on into the *[A. W.]* Clausen period.

BAUM: Even more so, even more so, because Clausen--who never mastered Bank operations and made his major contributions on the managerial, which was very mixed in my mind, and the financial, which was very successful in my mind—but he relied entirely on Ernie for operations so that Ernie became the chief spokesman. And this was really when Ernie in effect took over as being the voice of projects as well as programs because Clausen automatically turned to Ernie, whereas McNamara automatically turned to me for project questions. But Clausen relied on Ernie for everything, so Ernie had to deliver the lending programs, and he sat with the regions to review their programs month by month, in the latter months of the year week by week, operation by operation, and the message comes out pretty clear: "If you've got to deliver your lending program or embarrass the Bank, if there's a choice, you know what's going to have to be sacrificed." And we had no effective weapons in defending against that.

But then comes the paradox (in my mind) of the '86-'87 reorganization, because essentially what I'm describing is a process which continued. When I left operations in I guess it was '82 to start my four-year sabbatical and write the two books which I wrote for the Bank which I assume you're familiar with, I was replaced by Shahid Husain, who had no interest in projects. He did not come from the project side of the Bank, either. He was interested--by then the regional operations policy staff, I might say, instead of central projects staff, had lost some project functions, and both industry and energy had been hived off into a separate vice-presidency primarily for political reasons when--to quiet the French when energy became a major issue after the first round of oil crises. The French wanted a separate institution. The Bank's compromise was to give them a separate vice-presidency inside the Bank headed by a Frenchman, but that took away from CPS two of its major functions.

At the same time they ended the anomaly between us and the economics department over who was responsible for research and policy work on, not only on agriculture and education but on all country work, and they made us operations policy staff and moved in effect all of the education department except the economics department--except the macroeconomists--into OPS. And that was the part which Shahid was interested in and which Ernie was interested in. And *[Visvanathan]* Rajagopalan, who had been my deputy, became the senior man on the project side and Husain allowed him to sort of carry on such battles as took place, but as you will find--I don't know if you've met with Rajagopalan--he's not quite in temperament a scrapper or a battler, although he became extremely versatile and knowledgeable on all the nuts and bolts of project work, but he was not a policy man or a researcher and he would not fight hard. And if he did--and quite often he would try to--he would find Husain had pulled the rug out from under him. He'd brief Husain, who was his boss, on a Loan Committee issue and then when it came before the Loan Committee, Husain would side with the other side. He would just change his mind in mid-stream, leaving all of his staff sitting there with their mouths open and so that the--I think the Operations Policy Staff--it may have been much stronger on the economics side which came over, because Husain was excellent at it--on the project side it was certainly downgraded and weakened.

LEWIS: You left in '82 when you started your sabbatical, so Husain came then. That was just in the beginning of Clausen's--he came in '81.

BAUM: Well, I went through four years of Clausen, as I recall.

LEWIS: Well, '82-'86.

BAUM: Yes, that's right. No, there's something wrong with the chronology here, because I didn't leave until *[Barber B.]* Conable. He was in office when I left the Bank. That's true. I started my four years under Clausen, but I had several years with Clausen.

LEWIS: Yeah, well, a couple years. But at any rate, this economic shop that moved into operations that you say was everything but macro--was that the stuff that--Mahbub ul-Haq left . . .

BAUM: This was the country economic work--the fiscal analysis, the balance of payments analysis, the research which they were doing on country economic problems, but short of debt and world debt problems, things of that sort. It was the global economy which remained in the economics department. It was economic forecasts which affected country policy which moved over . .

[End Tape 1, Side A]
[Begin Tape 1, Side B]

BAUM: . . by inclination a protagonist for the project's point of view in this continuing process, but there is another feature occurring in these operations which became critical to understanding what happened in the reorganization.

Ernie, as I said, mastered project work because he reviewed every piece of paper which came over his desk, and he hated sloppy work and he hated having to defend it before the Board. And when Husain replaced me, Ernie took over all of the--there was no question of who was going to answer the questions on projects. So Ernie became a rather hard-nosed and ruthless reviewer of all of the documents that came before him. And that wasn't just the project reports: it was the president's report; it was the reports on the structural adjustment loans. Ernie was a very hard taskmaster and very tough on his staff and very rough with them. He would write what were called "Sterngrams," "This is ridiculous. This is unacceptable. This is one of the sloppiest pieces of analysis I've ever seen." This is what would come down on the margin. CPS *[inaudible]* who had never dared to cloak our criticism in that kind of language, but he wouldn't hesitate. He just ripped the hide off the staff in these "Sterngrams," which would go to the vice-presidents, too. He ripped the hide off everybody. And the other thing he did which was relevant was that he centralized everything. He would read every document; he would sign off on every document; and if he didn't like it, he'd send it back. And so whereas the functions of CPS/OPS were not being pursued as vigorously, Ernie was churning the waters continually and causing a great deal of discontent among the operational staff both by the way he treated them in their professional work and by the fact that he centralized all the decisions in his office. He'd meet with the regional vice-presidents. OPS wouldn't be invited, but he'd go over the operations and give them all his comments and tell them what was wrong with them.

And incidentally, and this I think may be some indication, when Ernie was away, I was the only person who ever replaced him. Under Burke he'd rotated the acting senior vice-presidents among the regions and CPS, so I replaced him one time out of seven. Ernie, seven out of seven; I was always the person to replace him. He didn't trust the regional vice-presidents not to sell the store, which was the way he put it. So he thought I was the only one who could be counted on to give a reasonably balanced protection of the regional vice-presidents who in this confrontation with Ernie and CPS naturally—you know, if the question is, "Are you going to increase power rates by," we would say, "40 percent," the regions would say 20 percent in the hope that they'd compromise on 30. But knowing that there was this process they would invariably come in low in the expectation that the bargaining would end up with something in between. So their point of view was to come in with as favorable a position as you hope you can get away with, knowing that Ernie and Baum, when he's there and Rajagopalan to the extent he can when he's not there, are going to be arguing on the other side. So it became deliberately confrontational, and Ernie was quite happy to be the man who resolved these things and settled every issue. But in the process he alienated the regional vice-presidents because he was deciding on all their operations and taking away their functions. He alienated all the staff because he was treating them in a very rough fashion.

Well, leading up to the reorganization the Board was becoming increasingly active. They were increasingly dissatisfied with what they regarded as the inefficiency of Bank operations. It was taking longer and longer to get projects to the Board. The average length of time had gone from nine months to ten months to ten and a half months or something of that sort, and they were riding very heavily on the Bank management to have an external review of how the operations complex functioned. And we were doing, as I said, our internal reviews at least every two years and chipping away at the margins, but Ernie was not prepared to dismantle the independent review by CPS of loan operations nor was he prepared to surrender his own power.

LEWIS: This lengthening out of the process, had that been going on a long time, or had it been going on under Ernie's . . .

BAUM: I think it had been going on a long time, and I think it was a function of the, not of our increasing efficiency but of the increasing complexity of our operations. We were moving into more and more difficult fields and were getting into more dimensions of the existing fields. When you get into management and training and institution-building and women and environment, even on a traditional project, you cannot add all these dimensions and not have the process take longer.

LEWIS: It wasn't just tougher vetting by Ernie?

BAUM: Not at all. I don't think that has anything to do with it. And if you took a look at the time, we were under very tight timetables. I had three days in which to review a project. The staff, Monte Yudelman, had two weeks in which to review a project. If we said it was lousy and had to be reworked, it might take a month to do that reworking, but we operated under very tight deadlines. But the process was taking longer, and staff were complaining, and the Board was picking up these complaints.

And Ernie's defense against an external review, which he didn't want, was to mount an internal review. He appointed a group under Steve *[Stephen M.]* Denning--I don't know if this name has come up. It's worth focusing on because people don't appreciate the critical role which this process played in the reorganization. But he appointed a group under Steve Denning, who was a very bright loan officer, I think he was a division chief in Africa, actually, to review the process with a fairly broad mandate to talk to staff and so forth. And they exercised their mandate very broadly. He had an oversight committee which was going to vet their report, and he was the chairman of it. I was on it and other people—and I forget who the others were. He gave his instructions to Denning as to the kind of report they were going to come up with. He had told the Board what the problem was, and he told Denning what he expected in effect Denning to come up with, which was that there's nothing wrong with the organization or the time, the problem is that staff have to get familiar with new functions and operations are more complex. In effect he was going to come up with a whitewash for the existing operation. It was quite clear that was what he expected Denning to come up with.

Instead, Denning came up with a revolutionary report which was entirely contrary to that, which said, in effect, operations are too centralized, there is too much review going on, staff are unhappy. And all the staff surveys, by the way, which were going on at this time, were revealing a high level of discontent, which Clausen was being fed, that staff were very unhappy in all sorts of ways. He instituted these staff surveys; McNamara would never have dreamed of consulting the staff on this kind of question. And he was appalled by the results, but they became a very important of the grist in this mill. Why was the staff so discontent? And the conclusions were: management was too centralized, there's too much review going on, CPS is intervening too much and preventing people from doing their jobs. And before the reorganization he came up with a set of recommendations which were entirely different from what Ernie had expected and which were directed primarily against Ernie. They called for, in effect, virtually abolishing the Loan Committee.

You have to read these--my recollection may not be entirely accurate--but the whole thrust of this was that the key document we had instituted under my management, the project brief, which was the document on which everybody focused prior to the appraisal report and where we tried to get issues ironed out so the appraisal report would move more smoothly and we wouldn't say at the appraisal stage, "Why in God's name didn't you ask this question?" These questions would be raised at the project brief stage, and these briefs got longer and longer, which was part of the problem, but they became efforts to expose to the entire Bank staff—I mean, these meetings on them got larger and larger also; 25 or 30 people would be attending--the major issues would be confronted. Well, this was to be substituted by an executive summary which was to be no more than two pages long, and the entire management of the Bank was supposed to sign off in advance of the appraisal on a two-page executive summary, and this was supposed to tell them whether or not there were issues which they would need to review. And unless they identified these issues at that stage and said they wanted to review this document, Ernie was supposed to be out of the loop until the thing came to him just before it came to the Board, which meant in effect the delegation to the regional vice-presidents of virtually the entire responsibility for the review of their operations. CPS was taken out of the loop in that at no stage was our control mandatory. Because there was no Loan Committee except on an exceptional basis, our advice was optional. They could seek it out if they wanted it. We could not insist on intervening in any report. Now this was the Denning committee report.

Mercifully I was in the hospital with major surgery when it came out, and I said to Ernie--and I really was about three days out of surgery at this point, total hip replacement—"I don't agree with this report. There is no way in the world in which I can fight it from my hospital bed. Take me off your committee." So he took me off the committee. But he had no choice, because there was a tremendous groundswell of opposition among the staff to this whole process which had built up over the years, and I tried to give you--imperfectly--some sense of all these elements which go into it, but willy-nilly staff did not want this level of centralized review of their work, and the Denning committee dismantled it.

Now, this happened about six months before the reorganization, and all of this was tried out on an experimental basis. It was going to be try it for a year and see how it worked. But when the reorganization came along, it swallowed this whole process and incorporated it into the structure and procedures of the new Bank, so that apart from the other problems and flaws in the reorganization--of which I think there were a number of major ones as well as some very positive ones--the whole process of centralized review had in effect gone by the board.

LEWIS: Clausen went along with this Denning report?

BAUM: Well, he didn't care. If Ernie swallowed it, yes, and you know it echoed a lot of the discontent which staff had voiced internally and to the Board and which Clausen had heard and picked up, and it seemed to promise a much quicker review. If you don't have a Loan Committee review, and if you don't have the mandatory CPS/OPS review, these things should take a lot less time. And so this seemed like the right solution. Of course, you will not be surprised that my concern was what was going to happen to the quality of the operations in this process when our control was only optional.

LEWIS: Is Denning still with the organization?

BAUM: Yes.

Well, in my mind a major purpose of the reorganization was to get Ernie out of the operations complex. I will give you my scenario, which you'll match against a hundred others to find where the truth lies, but when Conable came on board, he was picked by the *[Ronald]* Reagan team with a certain number of conditions. He wanted, he knew he had to get IDA replenishment; he knew he had to get a Bank capital increase. He was held hostage to the administration which appointed him. The price was: "You've got to streamline the operations of the Bank. You've got to do work faster. You've got to get rid of this redundant staff. You've got to get rid of all of these excess vice-presidents. You've got to get rid of Ernie Stern." And I think this was his brief when he came into the institution. And Ernie, at least, he did get him out of the operations complex. And this is what Denning's report had been directed to . . .

LEWIS: Was the Reagan opposition to Ernie functional? Personal?

BAUM: I think it was personal. He was just too bright for them.

LEWIS: I know that he couldn't stand what's-his-name, who became chairman of the council, the youngest deputy secretary, the banker from Chicago?

BAUM: Well, Ernie was just too bright for the Treasury people, just as in the end he was too bright for the Board. He was brilliant and he was extraordinarily effective. I've never seen anybody whose mind could work as well both on the nitty-gritty of a detail of project work or loan operation and on the grand strategy of how you deal with development and the energy crisis. I think he had a brilliant mind over a tremendous range of subject matter, really second almost to none. But his Achilles heel was that he was too bright for his own good. He couldn't temper his intelligence with enough wisdom to tolerate the people whom he had to bring along in order to get these things accomplished. In the end he alienated more people than he could afford to alienate on the Board and particularly in the U.S. government. So the reorganization, I think, had as its major target moving Ernie out of operations, and he saved his own skin by getting into finance, where he has done brilliantly also.

The irony of it was that the Denning report had already accomplished this in large measure through procedural change rather than substantive ones, but because the Denning report had not been absorbed at all by the U.S. government, which had only the remotest notion of what the Bank did. I mean, they had very--all through this they had a very imperfect conception of the Bank. Their concerns were ones which had already been in large part taken care of by the Denning report. But all of these procedures were incorporated into the new structure of the Bank.

And you want to talk about reorganization?

LEWIS: Yes. Beryl Sprinkel's *[inaudible]*

BAUM: Right. I had left the Bank by then, and I had several sessions with the consultants who had been taken on board, and it was clear to me that they knew nothing about the institution. There was a steering committee. In the first, the '72 reorganization, McNamara dictated the results. In this one, there was the steering committee, which regrettably contained McNamara because it came out exactly the way he wanted the '72 reorganization to come out but couldn't achieve it, and he was a very active force. But the others on the steering committee were a group of young professionals, young Turks, really, whose determination was to put the Bank through a cultural revolution. And that really is what they did. It was a cultural revolution. It was a younger generation against the older generation, and they changed everything. They didn't change the names of the buildings, but they changed the numbers of the offices. They changed the name of every committee; they changed the name of every piece of paper; they moved virtually every senior staff member from one position to another position; and they got rid of a substantial number of people, including some dead wood and some people whom the Bank could very ill afford to lose. But their central objective was to make this a new Bank for the '90s which was country-oriented, much more streamlined, much more focused toward the needs of countries or the wants of countries and much less concerned with all of this paper review and processing which had gone on under the old Bank. And this is the philosophy which . . .

LEWIS: Who was the head of that steering committee?

BAUM: Kim *[Edward V. K.]* Jaycox.

LEWIS: Oh, Kim Jaycox.

KAPUR: Do you know the name of the firm, the consulting firm?

BAUM: No, I don't.

KAPUR: Or why that particular one was chosen?

BAUM: No. They had had no previous experience with the Bank. In the couple of meetings I had with them, they had no understanding of the Bank. I remember one session, and this one conversation which I remember because it serves my purpose, but I think it illustrates the point:

I was talking to them, and they said, "Well, we need an organizational structure which is much more oriented to serving the wants of our countries."

And I said, "Is it our job to serve their wants or their needs?"

And they looked at me with the blankest of stares. "What do you mean?" It had never occurred to them that there was a distinction between giving a country what it wanted and giving a country what it needed, and that in essence is everything I've been talking about in the other conversation. The area department by its nature was more oriented toward giving the country what it wanted, but I don't say this invidiously. It was their job to deliver a program which the country could support and maintain good relations and so forth. It was a perfectly legitimate function. But our function was to say, "They don't need this. They need something else. They need a power loan, but they also need a new power entity, and the power loan is not going to do any good unless you put through a 40 percent rate increase. And they don't want a 40 percent increase, but they need it." And this is the issue, and this distinction had been completely lost on the people who were supposedly masterminding the reorganization.

But what McNamara had hoped to accomplish in the '72 reorganization—and this is history, but you're doing history—was accountability. When he came in--and this is a point which I would stress--the first thing he did was within weeks and before he knew anything about the way in which the Bank functioned was to abolish the working parties. And the working party was the answer at the staff level to this tension between the technical operations department on the one hand on all project operations and the regions or area departments which are the loan officers and economists. Every operation had a working party from start to finish, and that working party was chaired by the loan officer. It included the country economist. It included, say, the three or four project staff people working on the project. It included the lawyer. It included somebody from Controller's. And they worked at the staff level on that operation from its first appearance as a blip on the screen through to its supervision stage, and this provided a collegiality which made the system work at the staff level. When they couldn't resolve their problems, then they started going up through these parallel lines which didn't meet except at the top. This was a vital way in which the Bank functioned. But when McNamara heard this, he blew his top because what he wanted--he wanted to run the Bank, and he wanted one person responsible. Instead of being told, "Well, the working party is dealing with this, and their report will come out next week," he wanted to be able to call somebody on his green phone and say, "When is this operation going to come to me? What's wrong with it, and what's holding it up?" He wanted one person in charge, and he abolished the working party forthwith, and it was never reconstituted.

But what he wanted in the '72 reorganization in addition to getting control was accountability. I talked to the McKenzie people very early on. They had been sent to me, and they had their model already working, and it was this: take Colombia, the country they had picked. "Wouldn't it be ideal if you had a Colombian department or division and it controlled the legal staff, the economic staff, the loan officers, and all the project staff working on Colombian operations under one management, and you have centralized control of all Colombian operations in that unit? Sure, if you need some kind of people looking over their shoulders, that's fine, but we want all the projects people working on Colombia in the Colombia unit." Well, I pointed out to them that that would require roughly ten times as large a staff as we now had in the project complex. Take the railway staff, for example. We had a single railway division or railway section, part of the transportation division or department at that point, I guess, and had maybe six or eight railway engineers doing all the operations in seventy countries, and they did a Colombian operation once every four years. And if you put two railway engineers in Colombia, you could staff four or five departments or countries, and you would leave 65 unattended, and there is no way in the world in which we could have done the Colombian model.

So the model which they finally worked out was to regionalize all the staff which could be regionalized but into only six regions--not into 75 to 100 countries, but into six regions and then as a separate department within that region. And that internalized the project/program tension within the region, with CPS looking from the outside. This is the process I've been describing, but it was a long way from achieving the level of accountability that McNamara wanted because it only existed at the regional vice-president level. He was the only person who could get his technical department director and his area department director in his office and thrash out the conflict between the 40 percent and the 20 percent, between doing it now and doing it later. And so McNamara could hold a regional vice-president accountable, but he found the regional vice-president had to tell him, "Well, I can't resolve this, partly because a third of my staff is staff that I don't control at all (they're still in OPS), in addition to which OPS is telling me that this project isn't ready and I can't go ahead because they refuse to give Loan Committee clearance." Responsibility still remained very much diffused inside the institution. So he never really got anywhere near the degree of accountability that he had intended.

LEWIS: This is when you got into the '86 one?

BAUM: And then we got in ’86, his time had come. Projects by now was much larger than it had been before. You could then take a lot of the project staff and put them into a Colombian department--or a Colombia/Argentina/Venezuela Department--and you could then regionalize instead of six percent of the staff, you could regionalize ninety percent of the staff. And this is what the whole central thesis of the reorganization was: give a country organization focus by having all of the staff under the control of a director, and he is responsible. Even the regional vice-president is not supposed to intervene. The country director is the guy who you really hold accountable for his results.

Well, this, I think, this has a lot of merit as a concept. It also has a number of problems with it as a concept. It has, first, the problem as I mentioned of spreading the project staff very thinly. When we had a railway division we had mechanical engineers and we had civil engineers and we had experts in trafficking and signaling and we had people who knew about marshaling yards and so forth. When you put one railway engineer in a division, in a department--and that's all you could possibly afford--he has got to handle all aspects of railway operations. It put a tremendous premium on generalists rather than specialists, and this in itself greatly weakened the extent to which professional people could talk to each other.

It was bad under the '72 reorganization because the credit specialists in the agriculture division of one region didn't talk to credit specialists in the agriculture division of another region, and it was only to the extent that the CPS could bring them together periodically for lunches, that could write policy papers, organize seminars and so forth, workshops, that any kind of professional interchange took place. And this was vital to the lifeblood and the long-run effectiveness of the people to have this kind of interchange going on. It was weakened by the '72 reorganization, but we made tremendous efforts to build this part of the function—which everybody welcomed. They may have hated the functional control, but they loved the seminars and workshops and professional interchanges, and we couldn't do too much of that kind of training for them. The problem was that if we did enough of it, we had no time left over. What they really wanted us to do was to do that and to staff their missions for them when they didn't have enough personnel to do it, but we had to draw the line. .

When it became centralized ten degrees further--instead of six regions or whatever it was 30-odd country departments--you had to rely on generalists. The interchange among them virtually disintegrated because they abolished CPS effectively in the process, and they inevitably had a residual technical department. They didn't call it projects department or rename it technical department because they had to change the name of everything, but in each of the regions in addition to the country departments which had regionalized project staffs into agriculture, education, and so forth, there were units which were too small to regionalize, so you still had a fairly large technical department in each of the regions. But a major conceptual flaw to reorganization is that these technical departments had no functions. Because you had said that the country department director is responsible for the project quality, technical aspects, as well as program aspects, and he's got all the staff, the technical department was simply a pool where you drew on staff which were too few in number to be regionalized. And the technical department manager explicitly had no functional responsibility for reviewing any of the projects which came out of the region.

LEWIS: This is the technical department in the region?

BAUM: In the region. He was in the region, and he had no responsibility for the technical quality of the work of the region. He was just a shop manager, and they said this marvelous thing in their report, as I remember: "He'll be judged on his ability to retain and motivate high-quality staff." That's how they reconciled the fact that a man who had no job was going to be a top-flight manager, that he was going to get good quality staff. Well, as you no doubt heard, it turned out to be recognized as a major flaw in the reorganization. And in the so-called fine tuning, they have further reduced the staff of the technical department and put more people into the operating departments so that there are fewer unhappy people.

LEWIS: How about the central sectoral departments, which must be the inheritors of the . . .

BAUM: That's the other thing. They took as many people from CPS/OPS as they could regionalize and put, make part of the pools which they split up among the top--there remained a skeletal staff, much smaller than the review staff which had existed in the old days. But bear in mind that there is already one fatal flaw in this, and that this review staff before the reorganization was still large sized, had no police function. It could only act on a voluntary basis. But they then did two things in the reorganization: one, they gutted it by taking as much of the staff as possible and putting them into the regional departments, and then they did something which was even more fatal, which was they moved it outside of operations. And this was an issue which was debated pro and con. I tried to argue, "Keep it in operations, because as long as it's there, the senior vice-president of operations is eventually going to realize that what's coming out of here is six kinds of projects from six regions and maybe 30 kinds of projects from 30 departments. I've got to have a staff which ensures that quality is uniform Bank-wide, and I must have a CPS to do this."

Instead they put it in a separate senior vice-presidency because they thought that senior vice-president would not have enough to do unless he had those functions. By doing that it was the death knell for this kind of work because it was hard enough to be effective fighting upstream all the time when you were in operations, but our saving grace as I said was that I was on the Loan Committee, I had Ernie's ear, I replaced him when he wasn't there, and I had to sign off on every operation. But once that was moved to a separate vice-presidency which couldn't intervene except at the level of the president himself, who couldn't have cared less about these issues, and when the review was deliberately made ex post rather than ex ante, the only control which the PPR *[Performance Planning and Review]* had on this was that once a year they would review all the operations which had taken place during the year. Now, our review was ex ante, so we could control things while there was still time to get them right. I argued, and I still believe firmly, an ex post review at the end of the year is useless. All you can do is tell people they probably made a mistake. You can't prove that they made a mistake, because that's OED's job. You say you think they made a mistake, and who's going to want to perform that kind of function, in addition to which the regions would all argue, "We didn't make a mistake. You don't understand. You don't know our countries." The standard argument. "We did it because we had to do this, that, and the other thing," and you would have no answer to them because the people in PPR were so far removed from operations. So all they did was to try to detect major trends in the Bank's lending operations for that year which might be the matters of senior management review.

And I don't know how well that's worked, because I've been out of it, but I would just volunteer an uninformed comment that even that is much less effective when another senior vice-president is telling *[Moeen A.]* Qureshi, "These are major trends which you ought to look at because they're not doing well" than when one of his staff is telling him, "These are problems which you have which you better handle if you want to get your work done properly." The fact that it was the senior vice-president—the senior vice president in my mind builds in assurance that the advice is going to be combated whether it's right or not just because of the way in which the jurisdictional problems, issues will be faced.

LEWIS: You got another ten, fifteen minutes?

BAUM: I've got as much time as you want.

LEWIS: This is terrific! I've got two kind of mixed questions. I don't know-- Richard, do you want to? One, Warren, is this: this is illuminating to me and fascinating as you started off and told us the story of the projects business as being a highly-centralized, layered and inherently rather procedurally complex business. It was given a sort of final twist of toughness under Ernie and building a lot of heartburn within the institution. You seemed to be very critical, in a sense, of this mode and the Denning report sort of comes along as a kind of radical but almost welcome (if I heard you) solution to it.

BAUM: No, I misstated it then.

LEWIS: Well, it seemed to me that now that you've gone on to tell us a lot of things that are wrong with Denning *[inaudible]*, which you get in the reorganization, and my real question is, looking back over the whole story of--when was it right? Or what was the nearest when it came to being right?

BAUM: Well, I was comfortable in the CPS function, and although I had resisted the '72 reorganization and had been the principal spokesman against it, McNamara did the smart thing of, you know, take your chief opponent and make him responsible for implementing it. In fact, I was the one who had to allocate all the project staff between the regions and the CPS, so I had responsibility for getting the whole thing going. I felt quite comfortable for many years under it, and the principal fault I'm finding was Ernie's management style. I think he could have performed his review functions with a much lighter hand and on a more exceptional basis than he did and with more balance between. But I think he in the end fell victim to something which the Bank is going to suffer for even more now than it did before, which is the pressure to reach lending targets at the expense of project quality because there are two more points I want to make about the reorganization. One, the argument, the defense of putting all these people under a country program director who has final responsibility is that you make him accountable. He's got to produce. If he doesn't produce, he gets replaced. Under the old system accountability was diffused. This certainly was its major weakness, that there was no one person responsible for the end product. CPS had an input; the region had an input; Ernie and his staff had an input; and the end product was something which nobody could claim they had had final responsibility for. And that made people unhappy because they lost their identification with the project at a fairly early stage when it kept going through this process. However, in my view, the end product was very much superior to what it would have been in the absence of this kind of control system. So I would regard this as a necessary evil to get the kind of project quality which I, again, I think the Bank has built its reputation on and which I think our borrowers need and deserve, whether or not they want it.

But the solution which was found in the '86 reorganization was accountability. Well, I think the fatal flaw in this is that you can't hold people accountable for things which they can't account for. Let me explain what I mean by that. You can hold them accountable for whether they've reached their lending targets. You can hold them accountable for whether or not they exceed their budgets, and budgeting became a major feature of this process, another thing which dragged down *[inaudible]* You can hold them accountable for whether they get each of their operations on schedule and within budget, individually, as well as the thing as a whole. The fourth ingredient is whether they produce projects of good quality, and who and how are they held accountable for that? Not only does this work against the other three, but there is no mechanism in the institution for blowing the whistle anymore and saying, "This isn't working. You shouldn't do this." I'm not saying there is no quality control in the regions because there is, but compared to what it was before, it's 20 percent. This is a number out of thin air; it has no--it's illustrative, but it can't be more than that. They put one project man in the office of the regional vice-president who is the project quality man for the whole region, or maybe one in each department, but there was no way in which one man can substitute for the absence of quality control which took place at all the levels of the institution before. And you can't hold them accountable for the lack of quality because who's going to find out? It will show up, I'm convinced, and everyone I talk to in the organization; maybe they say this because they know how I feel about it--people in all walks say the quality of our project work just bears no resemblance to what it did before. And this seems to me to have been the fatal flaw in accountability. How do you have a mechanism for identifying it?

LEWIS: Let me ask you, being a devil's advocate here, that you--I think it is totally convincing that you have got to have within the process people questioning with authority. I mean, you have a sort of pluralism of intellects bearing on an issue. But your scalar point is very telling, that you can't, that there are some things that are sufficiently specialized that you can't dollop them around in the country desks, but if the organization let's say is five times as big in terms of the number of transactions it's processing as it was back in '72, why can't you replicate in four or five regions the same degree of quality?

BAUM: Well, that's a fair question. After '72 a deliberate decision was made not to allow any of the regional front offices to replicate the kind of advisory staff the CPS had because they wanted CPS to be independent of the regions. I think had they done it in the regional front office, they would not have been as effective because it would still have had the regional bias, which is a positive one but it still is a bias. You've got to have both scales functioning. Second, there is no way in the world in which they could have acquired the number of advisors which we had in OPS with a Bank-wide view of what was going on. You know our irrigation advisor and one or two assistants were looking at all of the output of six regions. You'd have to have six irrigation advisors, each looking at the output of one region, and apart from the tremendous diseconomies of trying to do that, they would only see one-sixth of Bank operations.

So that there may be a time--I hope not--in the history of the Bank--it doesn't seem to be moving that way, because we seem to have reached the plateau in terms of level of operations and size of staff--when you could have within each at least region its own internal element of quality control at a significant level. We're not there now; we certainly were not there at the time of the '72 reorganization. And deliberately they decided to let it go by the board in order to concentrate all these resources on the country departments, which to my mind is a fallacious notion. If you hold them accountable, the good people will make sure that they consult the advisory staff and get the best advice. The good people will, and you don't need a system to require them to. The bad people, who need it most, are the ones who won't, but apart from that all the pressure is still there and reinforced a hundred times—not a hundred times but even more now than it was before--"get the lending program out; reach your lending targets" because it's all being done under a much tighter budget than it had been before and under much tighter computer control so that the division chiefs feel much more harassed, much more under the gun, to achieve things. All the things they have to achieve through the computer system and the management control have nothing to do with the quality of the operation. It has everything to do with the time it takes, the resources it absorbs, but not with its quality.

WEBB: Could I . .

BAUM: I'll mention one last thing and then I'll finish with yours. The other thing which the reorganization did, however, even if it was conceptually ideal, the execution of it was execrable.

LEWIS: This labor market kind of . . .

BAUM: Yeah, they just made any number of unnecessary mistakes in the way in which they did it, so they not only alienated the staff which they lost and the staff which was left but they reshuffled everybody--literally. They not only renamed everything, but they took everybody--if you worked in Latin America, you ended up in Africa, and vice versa. And they lost all of the institutional knowledge of the Bank in the process, or a large part of it. They wanted to reshuffle everything and start from scratch. They not only lost all the institutional knowledge, but they opened up the whole system to cronyism and favoritism, whereas it had been a very highly professionalized management system for recruiting and promoting staff. Now the regional vice-presidents were free to promote their cronies, get rid of the people they didn't like—give grossly excessive golden handshakes to people they got rid of so that there wouldn't be any disputes with them which meant that they had to operate with very tight budgets vis-a-vis the Board, which expected results which did not materialize, certainly not initially. And the atmosphere in the institution was poisoned for years. I think it's getting better, but the first couple of years after, it was just, just awful.

LEWIS: This phrase "cultural revolution"--is that widely used? I haven't heard it used. I think that's great.

BAUM: No, it's mine, but I can't think of any other term which indicates the extent to which the people involved were determined to make over the Bank in this particular image and the extent to which they went to do it. And because of the way they handled the personnel in the process, even if they hadn't had these other conceptual problems to deal with, they would have had a very alienated staff. As it was, you had alienated staff which had these other problems, some of which have been partially dealt with, others of which I think are just built into the process. So that's the end of my lecture on the reorganization.

WEBB: I think so much of this turns on quality, and when I think of that I can imagine two kinds of things that are involved in quality, one being something that is very much limited to a particular investment project, but something else which--maybe the best term is a whole series of externalities for a country that have to do with all the wisdom, technology, expertise, et cetera, that the Bank transfers to a country . .

[End Tape 1, Side B]
[Begin Tape 2, Side A]

WEBB: This story of the CPS and its central role in maintaining quality, do you see it as having an awful lot to do with--first of all, does that distinction make sense? Also, does CPS really have to do with both equally or more with one or the other?

BAUM: We considered we had to deal with both, and we tried to deal with both. We had four functions. The least attractive was to help provide manpower to regions who desperately needed expert staff to carry out their missions. They would have absorbed all of our staff if we allowed them to, so we had to put quantitative limits on that. A second was doing the quality control of individual operations. A third was writing policy papers, and a fourth was doing research. And we regarded the research and policy papers as the essential raison d'être of CPS. We had a minor problem with the economics department in the early years in that they were trying to write some of those policy papers and research papers also, and some of OED which was trying to do some of that work also. But you take a look at the output of CPS during that time—you'll see that there is a tremendous codification going on of all sorts of things, not only guidelines on procurement and guidelines on use of consultants but papers on domestic preference, how you do project work so that in individual projects you don't have to reinvent these issues all over. So you've got operational manuals, look at them. But the whole series of CPMs, I think they were called, which were Central Project Memoranda dealing with individual things and operational policy memoranda dealing with broader issues of policy and the whole question . . .

LEWIS: Did you have sector policy papers?

BAUM: Yeah, we did.

LEWIS: You did. In the early '70s, I think.

BAUM: We did sector policy papers, and we did sector reviews. Each year each sector would do a review of all the operations in that sector, which would be the grist for a lot of the seminars, symposia, discussions. Monte Yudelman did it particularly well in agriculture. He had a whole week of bringing in outside speakers and so forth. But we regarded drawing the lessons of experience--codifying them and making them issues, writing policy or procedural documents at whatever level was appropriate and researching those which were still problem areas--as our most important function. You'll form your own judgment on how well we did them, but there was a fairly steady stream which got incorporated in OPMs, CPMs, guidelines, and things of that sort.

We were very much concerned in not just continuing to repeat the same lessons, but anytime we found a lesson coming up repeatedly, first, it would appear in the minutes of a meeting of the project, which I had with the directors, and then we would try to make a policy document out of it and run it through the management. And we found a great deal of resistance in doing this. For example, we would have some of the major policy issues which came up on pricing and cost recovery and financing of recurring costs. These are, if you will, some of the basic policy issues which come up repeatedly. But we wrote policy papers on cost recovery, on financing of recurring costs, and these were debated at great length with the operations complex in meetings chaired by Ernie and with a great deal of resistance, naturally, because they were recurred issues they wanted to be handled in different ways by different parts of the operations complex. But we tried to do that, and I think the—I know that the residual staff, which is in Rajagopalan's directorate under PPR, is trying to do that but trying to do it several levels removed from the degree of effectiveness which you could have if you could force the regions to confront it.

Often we would find Ernie on our side on these issues. One of the issues was disbursements. This sounds simple, but disbursement schedules for projects are very useful in determining the need of the Bank for additional capital. Well, the disbursement profile which the regions would invariably produce would show a loan disbursing in five years. The disbursement experience of the Bank would show a loan disbursing in eight years, and our effort was to try and force the regions to adopt a disbursement profile which reflected the experience with that sector's projects. It was extraordinarily difficult to do so. We got--but Ernie was entirely on our side on this because he was embarrassed when he argued a need for finances which turned out we didn't need because we had forecast disbursements at the level of three billion and they were one billion eight, and so he was very much in favor of realistic disbursement schedules, which we had to fight tooth and nail with the regions to get incorporated. But that kind of issue--accurate timetables for projects, accurate cost estimates for projects--instead of a stage in the project process in which a loan will be made was important.

We forced through a management decision that a project would not be brought to the Board until the engineering had been completed. And this was a major control over the timing. It's a major reason why it took longer than it had before because before they would go to the Board on the basis of a feasibility study with preliminary engineering, and when the detailed engineering was completed and we had the cost estimates, they'd be 50 percent higher than those on which we made the loan and we had a shortfall on the loan before they'd even got to disburse it. And so we were able to force through a decision that we would appraise on the basis of semi-detailed engineering, and we would not sign off on the loan until the detailed engineering had been complete and we had more reliable cost estimates. I'm sure we narrowed the gap in cost overruns by 20 percent just by doing that and also by directives on how you estimated price and fiscal contingencies, but these are more on the technical side of project work. But we did them also on training, on women in development, on the environment, on all of the new fields in which we were going--rural development we had a whole series of papers, and papers were coming out on credit and so forth. Certainly not the volume we wanted, but every department in CPS had a research and policy agenda which was reviewed monthly by the front office and which was discussed with the regions in which they made inputs.

WEBB: *[inaudible]* personal, but it's a--when I imagine this steering committee and what they want to do, I would think that they would have been maybe economists and certainly people who hadn't been in the middle of the projects for much time. But the chairman was Jaycox.

BAUM: Yes, well, it's not a fair characterization. There were people on there, starting with Jaycox, who I long regarded as my protégé and who often referred to me as his mentor during his years--and he worked for me when he joined the Bank until he became projects director under Husain in Asia. He had worked for the Bank for 15 years or something of that sort. And there were on that staff people who were young Turks but who had grown up on the project side of the institution and who had every reason to know projects well.

LEWIS: Kemal Dervish?

BAUM: No, he was not a projects man.

LEWIS: No, but he was on the steering committee.

BAUM: I don't recall. There were some people--it was heavily weighted with young professionals who had limited exposure to projects. Jaycox, I would say, though--I was a tremendous booster of him, urged him to become a vice-president--always was an iconoclast. He always wanted to do things differently, and this reflected very much his philosophy and McNamara's philosophy. And they were two very influential people.

I don't know if this is your observation, but organizations acquire a flavor, a set of attitudes. When I worked in the federal government, as I did for a while, the Treasury Department always had one set of attitudes. AID had one set of attitudes. The Federal Reserve had another set of attitudes. The State Department had another set. You could almost predict on any question what the culture was going to be and how that culture was going to operate. And an outfit like that gets its own cultural set of attitudes anyhow, and they picked up this culture. There's a lot to be said for prima facie this idea of having operating staff at a senior level, which is the department level, controlling all the resources necessary to deliver a quality product to the borrowers on time and within budget is marvelous, and if they had just kept CPS there, you could have argued it might work. But having already emasculated CPS by taking away its policeman function and having split the staff so widely, so thinly that they lost, that they put a premium on generalists which meant that the control by the specialists had to be more intense rather than less intense to ensure the same degree of quality, and by pushing hard all those levers on quantity controls without having any levers on quality control, I think they very badly skewed the institution.

KAPUR: I was wondering, when you're talking of quality control, is it okay—you referred more about project at the pre-appraisal and the appraisal stage, and if one looks at the implementation stage, do you think that the use of compliance, of the loan covenants by the borrowers--what I seem to have noticed is that it's very rare that disbursements were ever stopped. It's more the exception, and although one hears a lot about from the borrowers' side that things were not sort of done as they might have been expected to do, do you think sort of compliance was used obliquely as a matter of quality . . .

BAUM: We had an interesting process--I think we started with Burke. It certainly was maintained under Ernie, although he changed its character: problem projects review. Every year all the projects under supervision were first reviewed at the regional level, and those which were in trouble were singled out for management attention. And the regional vice-president might write, "Review 25," and then as Ernie was much more selective, only five of his would be sent up to Ernie and me in effect for review of the portfolio to see what was going on, and we would discuss appropriate action with respect to all of those things. Now, there is always a question how hard you--at what point you use the heavy artillery, which is suspending disbursements. And again there are perfectly legitimate points of view. We would probably argue more in favor of suspending disbursements, but on the other hand the projects people by the time a loan was ongoing, they were pretty heavily committed to it also, and so we would much prefer to believe that by talking tough to the borrower, by sending out another mission, by threatening to do things if they didn't comply that we could achieve better performance. And then if the same project came up a second year and a third year, eventually we would reluctantly conclude that Egypt is never going to raise power tariffs and we would then stop lending for power in Egypt, which we had to do. But the cutting off of disbursements we felt was a pretty powerful tool which you didn't want to exercise too frequently unless you were, you know . . .

WEBB: It must have been very weakened in the stick by the fact that if you cut off something that’s already on its way, you’ll damage it even further, maybe.

BAUM: That’s right.

WEBB: Was it ever suggested that one would instead cut off the services on other projects or new projects rather than the . . .

BAUM: Well, this was the control, and this is one thing which I think CPS and Burke and Ernie saw eye to eye on. You couldn't go to the Board with a new project in a field if the state of project execution on existing projects was too bad. And one of the reasons you couldn't was because the president's report had to report on the status of all projects under implementation in the country. And whether or not it did that, we were very much concerned about it because we were always concerned about project compliance. And if we found, for example, that Mexico had promised in an early irrigation loan to institute a set of water charges and they had done virtually nothing about it, and this was the case repeatedly, we finally got to the point where we would not make another loan to Mexico for irrigation unless they did something about the earlier loan. Now the first time around they promised to do something about the earlier loan, but when it turned out the promise was not complied with and we made one loan on good faith, then the second time around we learned even that lesson and we would insist on a 25 percent increase in the water charges on all ongoing projects.

It took a long time. In Nigeria on the fertilizer price, for example, we had a endless series of covenants whereby they would increase the price of fertilizer which they were virtually giving away to farmers as a way of making the price to the farmer reflect the cost to the farmer so that he would be economical in its use. And they wouldn't do it and it was Nigeria and we wanted a big lending program and we accepted a great deal on faith. And this was again part of the tension between program and projects. They accepted much more on faith than we did, and we wanted to lower the boom sooner, but in the end the ultimate tool which we used was much more not making new loans, and as long as the volume of lending operations was going up, this was in the end an effective tool to use.

KAPUR: Although that would become somewhat more difficult if you have, say, a five-year lending program targets with a country, then you're committed to meeting those targets. Then, of course . . .

BAUM: I think the paradox we got ourselves into is that McNamara made a tremendous accomplishment by introducing long-term programming. I've mentioned that, so I won't go over it. We didn't think we could lend more than a billion dollars a year. We were stuck at that level. That was all the Bank was supposed to do. And he had long-term programs, and he just lifted all the ceilings, and he kept driving us more and more. There was one point when our agricultural staff was increasing 25 percent a year. We decided we couldn't possibly recruit more than 25 percent of staff every year, so we stopped at that level, but he would have been happy to go further.

But in the end we became captives of our own programming. Our sights kept getting higher and higher. It became more and more difficult to deliver quality projects at those sights, but we had convinced the Board we could do it. We had told the Treasury we could do it. We had based our IDA lending projections on it. We had made our borrowing projections on it. *[Eugene]* Rotberg was always telling us, "Look, I borrowed the money, and you guys aren't spending it. What's wrong with you?" And the pressure to reach the targets which we had set, the goals instead of being something which you had some flexibility in reaching became sources of embarrassment and enormous sources of pressure inside the institution to accomplish, and that has not diminished with time.

WEBB: You’ve said the quality was the thing that was the most difficult to measure, perhaps, but are there some things that could be indications or partial measures you could look at?

BAUM: I would want—I would suggest that you talk very confidentially if you can to Rajagopalan on this who was convinced of this, but I'm not convinced he will say this to you. But I hear it on all sides that things are going forward without the level of checking, but it's very hard to detect this without--I'm not suggesting you aren't sophisticated--but without a level of sophistication which would enable you to know: Did they really look at the management side of this thing seriously, or did they accept a management which looks efficient? Have they done the training up front as they should? One of the deficiencies which we flagged more and more toward the end was that training would be tagged onto the end of the project as an afterthought and consultants would think this was the least important part of it, and it never got done, and it was in fact one of the most important aspects of institution building. How seriously have they taken institution building? How seriously have they corrected the defects of earlier projects before they've gone ahead with this one? Have they really completed all the detailed engineering before they've gone in? Have they got the consultants in place? There are a thousand questions which you would ask on any project, and our concern is that there's nobody asking them anymore. Not nobody. I'm sorry. I don't want to overstate this. There are country directors who are very serious about putting forward quality projects. They have no desire to salve their borrowers with projects which are less good than they can be. I would say the majority of country directors want to produce quality projects, and I would not fault them at all and I would say the majority of the regional vice-presidents want to also. What I would say is that the system is no longer enabling them to do this and the other things which they have to do at the same time, and they are very hard pressed and willy-nilly they have to make some sacrifices in quality in order to do the rest of the things.

WEBB: Has OED managed to see some of this?

BAUM: Well, they're far behind in the process.

WEBB: Are they looking for this?

BAUM: Well, these projects won't come on stream except for the structural adjustment loans for another three to five years. And OED in the end is political, also. They've got to live within the institution. I don't know how hard Yves Rovani, who is a master politician, will allow OED to put itself in a position of blowing the whistle on the rest of the institution, including the president and management. I think he will tread very carefully before he'll move OED out in front on this. There are just too many forces. There's too much committed to this way of doing business.

LEWIS: He's committed to retiring, though, isn't he? It's a terminal job.

BAUM: Yeah. I don't know how soon his replacement will come on board and who he'll be.

KAPUR: You were mentioning that some regions or that most country directors in most regions have this quality. If you were perhaps single out one region where perhaps this has been most weak, which would . .

BAUM: I'm not close enough to it at this point. I've tried, I'm sure inadequately, not to impugn the motives of people because I think that the kinds of tensions and pressures which I've described are built into the system. I don't think they're unhealthy. I think on the contrary they're healthy and indeed essential. And I don't think that regional vice—I think regional vice presidents--and if I had been one, and I had a chance to be one; instead I chose a sabbatical and a four-year book-writing exercise. I was offered a regional vice-presidency, but I decided I didn't want to do that, but had I done it, I'm sure I'd have behaved like other regional vice-presidents because that's the kind of signals I'd have gotten from top management: "This is what I expect from you." McNamara only once in thirteen years called me to ask me where a project was, and you might have thought he would put a lot of pressure on me because I was the one who was holding up these projects--that was the story from the regions always that, "It's OPS/CPS which is holding up the projects. If it weren't for them, we could get these out much faster," and Clausen bought this idea. Only once in thirteen years did McNamara ask me where a project was. I said it wasn't ready. He said, "Thank you" and hung up, and he never called me again on that question. And he valued quality control. He may have made it difficult to accomplish it, but he saw the need for these tensions and he was perfectly happy to resolve them.

My concern now is not about the motivations of staff; it's about the kind of signals we're getting about the adequacy of the system in providing--in effect, I'm talking about checks and balances. I think projects require checks and balances. You need a variety of points of view brought to bear on very complicated operations to see that a variety of points of view are adequately reflected. I think that the checks and balances which existed reasonably well at one time have been distorted excessively at this point.

KAPUR: Were you *[inaudible]* with the CSPs and the CPPs . . .

BAUM: CSP?

KAPUR: The Country Strategy Papers and the Country Policy Papers.

BAUM: I sat in on all of those. I was a member of the review process which McNamara instituted, and I would comment from the point of view of the sectors. I would ask my sector department directors if they felt that the country strategy for Bangladesh gave adequate attention to agricultural problems and if not I would raise those questions at the CCP—and sometimes successfully, sometimes not. That I thought it was a very healthy process and a very good one. It tended to lock in place ambitious programs, particularly under McNamara, because the regions would use this as an occasion to get approval for as high a lending program as possible. Among other things, by having six regions--and this may go back to your earlier question, "Is this the right way to set up the Bank?"--you had six senior people competing for a single pot of funds. Once resources became scarce (and in later years they were always scarce) each region would have to put forward its strongest claim on the existing pot of funds, so they had to prove that even despite all the deficiencies in Bangladesh, for example--and this was strongest on IDA--that Bangladesh was a very claimant on IDA funds and yes, there were problems, but there was a new director of the irrigation institute, and he would clean up all these problems, so let's give him the benefit of the doubt and continue the irrigation program. And the CPPs were instruments of the regions for getting as much out of central management to support their claims on the budget at as late a stage as possible. I think this became a weakness in what otherwise was a very intelligent process of trying to look at the program of a country as a whole.

LEWIS: Let me ask you a different question, for a quick take on. You've given us about the best take on the main project business of the Bank, certainly the best we've had and probably the best we'll ever get. We haven't talked at all about something that sort of went alongside this story, particularly the kind of crisis period in your time, particularly during Ernie's reign of the project business, starts at '78 or '79, and runs on into the middle '80s. We have tentatively thought that the biggest hinge in the whole story also is about '78, '79, '80, in the shift of emphasis from projects to policy, let’s say, or adjustment. And you’re sort of "Mr. Projects." Now, what's your perception of that?

BAUM: Well, I'm delighted to talk about it because I lived through that, and I even had the difficult function of approving a number of SALs *[structural adjustment loans]* when Ernie was away and doing it with a--my objective, really, was to hold the fort until he came back because he was the master of structural adjustment, and this was ideal for his mindset. He could really do this. My own view was, first, that the structural adjustment was necessary, and I never opposed it as a process. And this was partly—and I'm repeating myself from what I said in that other interview--we were finding that there was no money for projects. When countries really got into financial difficulties, which they did, not only could we not make new loans, but existing loans were running short of funds. And it made no difference to say, "Look, you've got a covenant. You've got to provide all the money to carry out our project," because even if they did put in all the money to carry out our project, they would then have to starve all the other projects in the country in order to do this, which was not in our interest or their interest. So that we knew that we had to have a solution to the debt problem before we could do project lending on the scale at which we could have done it otherwise, and this required a country dialogue and a set of country commitments at an entirely different level of intensity than we’d had before.

Mind you, we always--one of the problems of the Bank, whenever we do something a little different, we’d like to pretend that we never did it before, and that's true about the environment, if you want to talk about that, and that's probably another sore subject we might take a little time on it if you've got it. Maybe you don't. But we always had a country dialogue, and that's what the region and area departments were responsible for, and they used the whole basket of lending in the country program as a basis for it, and they tried to deal with issues, macro issues in that process. But we needed a stronger instrument than that, and the structural adjustment loan was, I think, the appropriate instrument for trying to accomplish that.

I thought Ernie was probably the only person in the Bank who really could have handled this because not only could he conceptualize a structural adjustment loan better than anybody, he would insist on tougher conditions for them. And the regions would come before him with a package which he would reject. It just wasn't good enough; they hadn't insisted on raising tariffs, removing quantitative restrictions, tighter budgetary controls, divesting public enterprises, and so forth. So the Bank put under Ernie a lot of issues which were critical to a structural adjustment of the country.

But there are a lot of problems with this. We're dealing with central political decisions of sovereign governments. Our ability to influence those decisions is marginal. We put a lot of money in the pot, and the Fund put a lot of money in the pot, but we found ourselves invariably facing the contradictions: okay, we've disbursed half the loan, and they've done a quarter of what we wanted them to. What do we do? Do we hold it up and make things worse? Do we take them on faith that they're going to do all the things in the second half which they didn't do in the first? All the pressures to go ahead and continue implementing the first loan and then doing the second one to Turkey and the third to Turkey and the fourth and fifth and the fourth and the fifth in the Philippines: there was a lot of pressure to do this. And I suspect when we look at the record—well, we know that in Brazil and Mexico and Argentina we made one or more structural adjustment loans which went very bad, and we know in Bolivia also. A number of these loans failed to achieve their purposes; there's no question about it. A number of them achieved very important purposes. Mexico, which was a D performer, is now our A performer. Brazil has never really come out of the C category. Argentina is a hopeless mess despite a number of structural adjustment loans. It's very difficult to implement, to execute successfully, and I think Ernie probably got caught up in it and was forced to do things he didn't want to do, and I suspect his successors will be much less rigorous than he was in doing this.

But I think it was, with all those qualifications, an essential change in the Bank's emphasis, but--and indeed one that you want to put a lot of stress on--but I think that you will miss the central point if that's all you say because structural adjustment lending and policy-based lending, which I think is in a large measure a phony because all of our projects have a policy component and we had a sectoral component, and if you look at the projects we were doing at that time we were approaching the sector as a whole. We were dealing with all the policies in that sector. We were making sector loans. Every project had a policy element. Read the project cycle article which I wrote years before that; you'll see how the sector and all the policy elements were in there. Well, a lot of what happened was just putting the old wine into new bottles to pretend that we were doing things which you weren't doing otherwise.

But even ignoring that, when you add up the new structural adjustment loans and the old sectoral policy loans which were continuing things we'd been doing at least in part before, you're talking about 20 percent of the lending, and 80 percent of the project lending has continued. And I understand that now that maybe it was 75 percent at the minimum. It's going up to 80, and it's going to increase. And what I'm saying is that we continued to do 80 percent of our lending while we focused 75 percent of our attention on the 20 percent and allowed all of these other things to take place, and in the process we have done considerable damage to the institution. So that if you talk about the SAL hinge without asking yourself what happened to what has always been and continued to be the main business of the Bank even during that period, you're missing an important part of the story.

But I can't comment on the efficacy of the SALs because I wasn't around when . . .

LEWIS: There have been some studies of *[inaudible]* apparently well already . .

BAUM: Some of them have.

LEWIS: . . and PRE and OED now have quite a lot of . . .

BAUM: Yeah. But form your own judgment, because I'm guilty on this, too. I've spent a lot of time strengthening OED. I've been their strongest supporter and also their greatest opponent at the same time because I've insisted on high-quality work on their part, and I've also insisted that they wrap their packages in the language which would do the least damage to the institution in the process. So that, you know, they called a spade a trowel or something of that sort, although it's clear it's a spade, but we tried at least to couch the language in forms which didn't do too much damage in the process of making, of delivering the message. I don't know to what extent they have, under the tremendous pressures they would be under with respect to structural adjustment lending, written things in ways which will require you to read between the lines in the earlier drafts to find out--and indeed the division reports.

LEWIS: I think the economics department's reviews are rather more candid than OED's, more critical.

KAPUR: OED's were.

LEWIS: OED's were more critical?

KAPUR: At least were, but I think there's a great sense in what you're saying.

BAUM: Well, I'm just saying be careful in forming your own judgments on this because there's an awful lot riding on this in the Bank, and when that happens they pull out all the stops, including the stops which I would have been involved in, to make sure that the thing doesn't do too much damage to the institution in the process.

LEWIS: I worked for OED once *[inaudible]* You said environment. You wanted to say . . .

BAUM: Yeah, I wanted to tell you a little about the environment, again to give a point of view on it, and partly because the Bank, under tremendous pressure from the NGOs *[non-governmental organizations]*, is acting as though it just discovered the environment under their pressure. Having put in the first environmental staff in about 1975, I think it was, I resent a little bit the notion that it was just discovered very recently. And in fact we were vetting every project from an environmental complex by the late '70s. Jim *[James A.]* Lee and his staff were going over every project. They did not focus on every project; they focused on only those which they thought had a significant environmental aspect to them.

I think under the—and I was in the Bank and involved in the decision making when we made the Brazilian loans, for example, for the Amazon. And so what I would say on this that I could sort of identify where I think we made mistakes and where we didn't. Inside the Bank we identified all the environmental issues which we have subsequently been criticized for ignoring or not having given attention to. They were the subject of endless dispute within the Bank at the staff level, and Jim Lee and his people pushed all the right buttons. These invariably went before the regional vice-president and then before the Loan Committee. I think where we made our biggest mistake is by accepting on faith the conviction--which was only an article of faith of the division chief's--that the government was serious about its institutions and how it was going to deal with the settlers, how it was going to deal with the aborigines, how it was going to control the process. They were new institutions; they gave us all sorts of assurances. We believed them, and I don't believe--in hindsight we certainly should not have believed them. And perhaps at the Loan Committee stage, I think, we were overruled and some of our misgivings were swallowed when they shouldn't have been swallowed, but I don't want to take too much credit for having said, "I told you so," although we did say it because we weren't sure. They were new institutions. You have to give them the benefit of the doubt, and we went forward. We didn't blow the whistle soon enough.

LEWIS: What was the Board's position on this? Did they have a clear . . .

BAUM: They were not in on this at all. Since then we have been pilloried by the environmental institutions, and I think we've gone a tremendous way toward trying to satisfy them. I think we've set in place a much more comprehensive system of reports. I think we're looking at environmental issues more carefully. I don't think we're looking at--I think we looked at them much more carefully before than we're given credit for and therefore the difference is not as much of a sea change as we're claiming it is.

And I'm concerned that the NGOs are professionally in a position where they will never be satisfied with what the Bank does because when they are, they're out of business. They raise their money by full-page ads on how bad a job the Bank is doing, and there's no way in which we can ever satisfy them and the projects which they are criticizing us for. If you look at the details, I think you'll find in the Bank these issues have been raised, and in some of the more recent ones I'm sure they've been, tried to be dealt with very systematically.

I guess there is one other thing besides the fact that we trusted the borrowers to do too much. As you know cost-benefit analysis is a business not of "before and after" but "with and without." And this is one of the most fundamental concepts of all in project work and one which people almost always disregard. They say, "Well, look at what it was before, and look what it is now, and therefore you're responsible for the change." But the most we're responsible for is what it was before and then what it would have been without our involvement and what it was with our involvement, and that's difficult enough to sort out, but it's very different from what happened as a result of all sorts of other forces.

I think you can argue very plausibly that had we not been involved in Brazil, in the Amazon, with the conditions which we had, the situation would have been very much worse than it was, and maybe it would have been so bad so fast that the pressures to correct it would have started sooner. And you could argue that we made it much better than it would have been otherwise, but that nevertheless it was a lot worse afterwards than it was before because we couldn't control the forces to the extent--we couldn't made a 100 percent change. We made a 40 percent change in a situation which worsened by 80 percent. So it was only 40 percent worse instead of 80 percent worse, and that was our contribution. But this was our logic: that we're going to try to get the Brazilians to do a job better, and we hoped we can get them to do the job as well as they should, and it turned out that we were never able to do so. But I think you've got to look at the environmental efforts of the Bank from those points of view.

WEBB: I've got 500 questions, but I'm really embarrassed to . . .

BAUM: You've probably got other commitments.

LEWIS: Well, this has really been terrific, I must say.

WEBB: Extremely helpful.

BAUM: Well, I'm at your disposal. I've invested twenty-seven years of my life in this institution and I love it and I still love it. And I think you've got a very important job to set the history of the institution straight, whatever that means, and you're in a position to do so. So if I can help you by giving you my prejudices to offset those of others, I'll be delighted to do so.

KAPUR: That book that you wrote, *Investing in Development*, I've sort of heard that a lot of the work went behind the book. Is there any sort of material there which might be worthwhile for us to look at?

BAUM: There are the rough drafts of those chapters.

KAPUR: But any sort of input that perhaps that you might have used?

BAUM: I think you're going to have a lot of trouble digesting that, and it's pretty long. Unfortunately, when I finished that, the whole operation collapsed because there was nobody to pick it up, and I think those files are probably at best in the salt mines in Pennsylvania, and I think you'd find that they're penciled and inked and scissored and pasted to a point which you would have a great deal of trouble in making any sense out of. The book has been translated into Vietnamese now. And there's a Chinese version, as you probably know. I hope you will talk, at least a page or two, about all of the special operations which the Bank did, in which the CGIAR *[Consultative Group on International Agricultural Research]* is the most prominent. But there is the TDR *[Special Program for Research and Training in Tropical Diseases]* and the onchocerciasis program and a lot of others.

LEWIS: I'm going to--on the side of being on this, I'm going to chair a review of ISNAR *[International Service for National Agricultural Research]* next summer. I know about CGIAR.

BAUM: I wrote a history of that, as you probably know.

LEWIS: Yes, I know. We certainly will give . .

BAUM: At least on the history, I think you'll find it helpful in filling in the background.

LEWIS: It was a very good show, I must say.

BAUM: But I'm in Washington until May, and in May I go up to Martha's Vineyard again where I was when you first tried to catch me. I got a message from our answering service that "the Book Institute has called." I had a little trouble with that until they mentioned the names of the people in the "Book Institute," so there are some slips in that process, but I can give you the number up there and you could call.

WEBB: You're there for the summer, are you?

BAUM: It's a long summer; I'm up there from early May until the end of October. But I'll be here until then, and if I can help you, believe me, I am, I believe very strongly in the importance of what you're doing and the importance of getting all points of view, and mine is . . . .

Let me just mention two things very quickly in passing. On the first page of the *Washington Post* and the *New York Times*, I think on Sunday, there were articles reporting on the press conference which *[James A. III]* Baker had had in Paris at the end of his trip around the Gulf. And the *Washington Post* said, "Baker Very Positive on Gulf Response to Potential Conflict," and the *New York Times* said, "Baker Visit Reveals Serious Conflict Among." It's the same press conference and entirely different points of view.

I read the book reviews of two books on William Paley, the president of CBS, by Sally Bedell Smith, one in the *Post* and one in the *Times*. Both agreed that this guy was a scoundrel. One said there were no mitigating features in him at all. The other said that she did a very balanced job of trying to show his positive qualities as well as negative. Two people reading the same book, reviewing it for two prestigious newspapers, entirely different. Two reporters, same press conference, different points of view. So to tell you the obvious, you've got to listen to a lot of people to find out where the nuggets of truth are.

LEWIS: Well, that's so true. It might cause people like us to just back up this project entirely, but we do need to hear more. We will be back to you, no question. It may be--we're going to both be engaged quite a bit during the spring—I have to do a last round of teaching. Richard has some other stuff, so it will probably be next summer before we are really tearing hard into this thing again.

BAUM: What's your timetable?

LEWIS: Well, the Bank wants it out by 1994, which is 50 years from Bretton Woods, and we're going to try to make that, and that means that if Brookings edits in a very stately way so that before the end of '93 we have to be finished with it.

BAUM: I assume you're going to show this to the Bank.

LEWIS: Oh, my, yes. They have a contractual right to see it, and they have only the right if their lawyers think some particular quotations from a confidential document marked "confidential" are going to be upsetting to members, they can suppress the direct quote, but they can't suppress the thought or the idea.

BAUM: No, I'm sure they wouldn't want that, and you wouldn't want them to. On the other hand, they may try to convince you that . .

[End Tape 2, Side A]
[Begin Tape 2, Side B]

BAUM: . . .as a fairly solid institution, willy-nilly, as much if not more on the quality of its reports than it has on the quality of its projects because everybody can read the reports and nobody gets—except a lot of people who often have a real ax to grind—go out in the field and see firsthand the projects and write their books against the Bank as a result of it. But the reports have been the central instrument on which the quality of the Bank's work has been judged. And this meant that a lot of work has gone into trying to make those reports reach a high standard. And if you go back to where I started, which is that a majority of our staff are not native English language speakers nor are they trained in report writing and that the process of producing a series of economic, presidents, and appraisal reports on complicated operations involves a lot of iterations through a lot of levels. The amount of staff dissatisfaction with the review of their work in the Bank is always at the level of explosion. And this is what happens whenever you take the lid off—whether it's an attitude survey or the Denning survey or the Mackenzie survey or the one which was done in '86—they find a great deal of staff discontent.

One thing which has always puzzled me in this institution is that—I think it has a wonderful vocation; I think it's one of the best institutions of its kind in the world; I think it has had a first-class staff and first-class management virtually throughout its period--and yet it has always operated at a low level of staff morale and a high level of vocal staff discontent. And this was before McNamara—I mentioned the staff *[inaudible]* goes back to Black's early years and that has always been there. And I don't know exactly what to attribute it to, but I think there's a danger of over-emphasizing it, and I think this is partly where the last reorganization and the Denning report went off the tracks because they interpreted staff dissatisfaction with a review process as evidence the review process was bad. And maybe it had flaws and certainly it could have been overdone by individuals or collectively but we couldn't collectively set it right. But what I am suggesting is that if reports are as important to a centralized institution as they are, and if the Board is trying to poke holes in them, and our co-lenders use the outcomes as a basis for going to their own management for seeking approval and then as models for the rest of the development community, they've got to get to a fairly high standard. And reaching that standard is a difficult task.

And you have the further task that the people who write the reports resent every stage in the process of having it reviewed. And their attitude is that "When the report leaves my desk, it's great. Everybody above it is fiddling with it." And no matter how high up the hierarchy you are, including me, when it left my desk, it was fine. If Ernie changed it, he was fiddling with it. But at every stage people feel that the changes at any level higher than theirs are inappropriate, which I think perhaps says something about the psychology with which people view the process of having edited—others make significant changes in their written work. It's a rough process, as you will find out, as I'm sure you found out on endless occasions before. But having your work reviewed critically by others is not an ego-gratifying process. And when it takes place time after time and the language is changed as well as the substance, they get unhappy.

But here's my positively last point. Most of these people did not appreciate the difference between substance and language, particularly those whose language was not English. I'll give you a simple illustration—or I'll give two. I just got a letter from the Motor Vehicles Administration of Maryland, and it tells you how to fill out an application for a license. It said--it has a space for two signatures, joint signatures, and it says, "If your vehicle is partially owned by two people, one person must sign." Now what does that mean? Does it mean that only one person must sign? Or that at least one of the two people must sign? That's a completely ambiguous instruction. And it's a one sentence form. And my other example is another, again from non-projects: the difference between "Only right turn from this lane" and "Right turn only from this lane" is entirely different. The position of the word "only" in that sentence changes the meaning of the sentence. And what to people down the line is "Management's fiddling just for the sake of fiddling," is often—at least as far as I was concerned—my trying to make sense out of things that weren't clear. And I found that the correlation between unclear language and unclear thinking was very high, which is why I spent a lot of time going over reports and questioning the language because I wanted to know what people meant by it. And I wanted the thing to stand two years later after they had departed the scene, and unless the language was clear, the whole thing fell down. And this is why the Bank throughout its years has spent a lot of time on what people inside the institution at all levels will tell you was just fiddling with reports. And you'd be accused of seeking perfection, perfectibility, all sorts of things in the process, but I want to give you my point of view on what we were trying to accomplish.

LEWIS: Well, we thank you very much indeed.

BAUM: My pleasure.

[End Tape 2, Side B]
[End of interview]