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A CONVERSATION WITH IRVING FRIEDMAN, VI

Washington, D.C.

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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Robert W. Óliver

OLIVER: This is Robert Óliver about to begin a conversation with Irving Friedman--for the fifth or sixth time, I guess. I'm inquiring now about India and Irving's relation to the Bell Mission

FRIEDMAN: I don't regard myself as having played an important role in the Bell Mission. I didn't have much to do with it except that I was a good friend of Bernie Bell and was asked by Woods about Bernie. I forgot what I said, but I'm sure I gave him very high marks. I had a high regard for Bernie Bell, who was someone I had met in '45 or '46. During the immediate post-war period, we had done a number of things together. So I am sure that would have been reflected in what I said to Woods about him.

Woods knew that I was very deeply interested in India. I had been involved in various things for over 20 years, and, at all times, they involved India. That was because, when I was a graduate student

at Columbia and had finished my doctorate oral dissertation but had not yet done my thesis, I was in the market for a job. Actually, at that time, I had a fellowship at the Carnegie Endowment. I accidentally met the new person who was the Indian Trade Commissioner. Under the Act of Westminster in the 1930s, India, like other members of the commonwealth, was being prepared for dominion status. It had been decided that in the international economic field the various members of the commonwealth that were not already independent would be given responsibility for their own affairs instead of the British Colonial Office.

Obviously Canada would already have autonomy in the field of international economic relations. India, (at this point, there was no division between India and Pakistan) was involved in this process of going to dominion status. So under that act of about 1935 or '36, India, which was still under the Viceroy's council, appointed by the Viceroy who in turn was appointed by the Crown, was given autonomy in international economic relations. I'm talking now about '39 and '40. This was particularly important because, by this time, Britain was at war, so a lot of the problems that I dealt with when I was working with this government in India (I'll come to that in a moment) were problems that arose out of the war situation. That had a great deal to do, as you will see in a moment, with what I did for the rest of my life.

I just happened to be at a conference on China. I gave a paper on China because my doctorate thesis was on China. Without my knowing

it, I seemed to have made a good impression on a new appointee called the Indian Trade Commissioner who was present at the Conference. The Indian Trade Commissioner reflected this new autonomy in international economic relations. There was a high commissioner in London, and under him a Government of India's Trade Commissioner in Australia, one in Tokyo, and one in New York. If I remember correctly, the New York Commissioner was in charge of all of the Western Hemisphere, although it was the United States and Canada that were particularly important.

A gentleman named Sardar Singh Malik, a Sikh who was in the civil service, was the first government of India Trade Commissioner. He later had a very distinguished career after India became independent. He became the first ambassador of independent India. He was the Ambassador to France, and he also was their high commissioner to Canada. He had had a incredibly distinguished career already by 1939. He had been the head of the India wing of the Royal Air Force in World War I. He was one of the very few recipients of the Victoria Cross. He was an internationally seeded golfer. He was an internationally seeded tennis player. He had won a double First at Balliol, Oxford. Then he joined the civil service and finally became the first Government of India's Trade Commissioner in the United States.

OLIVER: What period of time are we talking about now?

FRIEDMAN: We're talking about 1939-40. Of course the office went on after I left, but it was '39, '40, and '41. The thing that I remember is that I had already passed my oral exams at Columbia, so I was available for a job. The fellowship I had was expiring. So we are

talking clearly about '39 and '40.

Sardar Singh Malik put together a staff. I was the only economist on the staff. There were a couple of other people who had come from the British Embassy. Malik regarded me as the only other professional in the group. We only had four or five people in the office, so I had a large variety of duties.

Among the things that I did related to the Sterling Area exchange controls. I found myself having to write memoranda or answer inquiries from Americans and Canadians as to what these new Sterling Area exchange controls meant for international payments to India. Of course the foreign trade from India was really quite important. It was in titanium ores and mica as well as jute, burlap, and cotton. It became involved with the American defense program, because the U.S. had switched its sources of supply of some war materials like mica and titanium ores to India from other places, particularly Europe. We had many inquiries. The India Supply Mission was buying war material for the India army, which was now engaged in the war. We'd become its support arm. They previously had only the British Embassy as its support arm. A basic mission of our office was to report on developments in the United States of special importance to India. I developed a new reporting system, which got me a special citation from the High Commissioner of the Government of India. It was an analytical report. It wasn't just reporting daily on the price of burlap and jute, but it talked about the needs of the United States for these different commodities and what was affecting the price of them:

different supply problems, alternative uses and alternative markets for different commodities like coffee from India. I got involved in finding an alternative market too for their high quality coffee which had previously gone to France. (France was now occupied by the Germans.)

It was a very rich experience, and also a very rich personal experience. Sader Singh Malik kind of adopted me as a younger brother. I was the only one in the office of which this was true. I had an education comparable to his own. I think I was the only university graduate on his small staff, and, of course, he was a very well educated person. We got ourselves involved in many conversations. I just had gotten married, so he would have Edna and myself out to dinner. He was at this time lionized by New York society. He was as handsome as any Hollywood star, but at the same time he had great difficulty finding a place to live. He found that Indians were not welcome in the United States in any high-income neighborhood, even by the people who were inviting him to dinner.

OLIVER: In the United States this was happening?

FRIEDMAN: Oh yes, in New York. This is all New York. I was still registered at Columbia. I was still finishing my doctorate degree. This was very much in New York. In those days, the number of people who went abroad was very limited. The number of Americans who had been to China or India without being missionaries or something special was very limited. It wasn't considered at all odd that I had never been to China or India. I've since joked a lot, Bob, that when the

OSS was formed under Bill Donovan, I was asked to head up the Asian division of the new OSS. I've always claimed that they must have asked me because I knew the difference between Calcutta and Bombay. But because my knowledge was actually very limited, I had to learn about India to do the job -- even after I was regarded as an expert on India as well as other matters.

OLIVER: Was the embassy in Washington or New York?

FRIEDMAN: The British Embassy was in Washington and the British Embassy still remained responsible for the political relations of India with the United States. The new government of India Trade Commission was the only really top level office they had in New York. The office was visited by people who were involved with India like Theodore Gregory, who was the economic advisor to the government. When he came through the states he would stop and visit. I got to get to know a number of Indians, and a number of Indians who later became very important Pakistanis. At this point in time, there was no difference.

Malik explained to me that being a Sikh made him acceptable to Hindus and Muslims alike. He was a major force, a mediating force, in India, as a friend of both Pakistan and India. When the division came, as someone from the Punjab he was given a choice about where he wanted to be. He stayed with the Government of India. (I think he is still alive, but he is a gentleman close to 90.) He considered himself an Indian rather than a Pakistani.

It was a tremendous experience for me, acquainting me with Asia.

A major reason I was hired by the U.S. Treasury was that I worked for the government of India. I had done my doctorate on China, so I was considered someone who knew about Asia. In the State Department, I was welcome because I had the right kind of background. A lot of people in those days were becoming experts on countries about which they had little background. I actually had considerable background on Asia as a result of the Government of India job. I had the job for about two years. The Government of India was a career appointment.

When I went to the Treasury, they thought of me as being expert on Asia. Among other arrangements like Japan, I worked on the Sterling Area. I wrote, I think, the first memorandum in the United States on Sterling Balances. I was the one who proposed the treatment of Sterling Balances that came out of Bretton Woods. I was one of the few people who knew what a Sterling Balance was. I knew the difference between different kinds of sterling. I had had to answer questions about such matters. So, during the war, I was sent out by the Treasury to the Middle East. I used to tell people that I thought I was sent to the Middle East because I didn't think anybody in the Treasury understood that there was a distinction between the Middle East and the Orient. I knew something about that part of the world. When I was then sent to China, my mission was to China and India. I was asked to go to India, for example, to negotiate the payment of troop pay for U.S. troops in India. We obtained the needed rupee currencies by gold sales in India. That was what the government of India preferred.

In connection with Bretton Woods, there was the major question of how sterling balances owned by India should be treated. These balances arose from British procurement in India. The British paid in sterling as was traditional for them, but this sterling was not convertible into other currencies. It was so called "blocked sterling." The sterling balances, like the external debt problem today, was very important, and the Indians were very perturbed that these balances would not be honored. Some English argued that India was still not independent. India's balances which had accrued during the war shouldn't be a full liability of the British government. The British were interested in some kind of settlement. The real solution was sort of a fifty-fifty division, one half of the debt forgiven, one half honored. I was the person in the Treasury who knew about India, so the Indians (and later Pakistanis) concerned would come calling on me. I was a very young and relatively a junior person, but they would talk about India. In a way, I think if I had an influence in the Treasury in foreign affairs, it was on India more than on anything else.

OLIVER: Tell about your experiences after the war, including the International Monetary Fund.

FRIEDMAN: Well I went to the International Monetary Fund not long afterwards. (We're talking now '44, '45, and '46.) The Fund was really an economics department at that time. Eddie Bernstein was the assistant director and acting director of the Research Department. It was immediately set up on a geographic basis. I was made the acting

head of the Asian division as well as the head of the US division. Also the acting head of the Middle East division. In the case of the Asian division, I don't remember how long it lasted. It may have been nearly a year before they got an Indian to come and be the head of it. In the case of the Middle Eastern division, it was more than a year until a man named El Gutly came to be its head. I remained very close to the people in the Middle East and Asia. Some of the more junior people who were under me when I was acting division chief remained on the staff. I was always deeply involved in the Fund work on India and remained so until I went to the World Bank--even though my responsibilities were not defined as India.

When I got to the World Bank, I told Woods about my background including my interest in India. I found that he, himself, had a very deep interest in India. He was very concerned about India and had very decided views on development in India, particularly on things in which he had been involved -- like fertilizer plants. This was all a prelude to the Bell Mission. When I look back on it, had I not had so much confidence in Bernie Bell, I might have tried to involve myself, but I didn't because I had a high regard for Bernie Bell. I had other things to do. But I always remained very interested in what he was doing and in other Indian matters. From time to time, when we had visiting dignitaries from India like the Minister of Finance, the Governor of the Reserve Bank, and so forth, I was usually involved. Indian and Pakistan personnel in the Bank worked with me in those days. In Pakistan, Indian staff and representatives remained close

friends even after going back to India.

Executive Directors from Pakistan and India thought of me as an old Indian hand. They included highly placed Indians like Joshi, Anjeria and B. K. Nehru. They thought of me as someone who had once worked for the Government of India. They were very senior and I had been of low rank, but we had both worked for the government of India. This was true with the Pakistanis as well as the Indians. This was the origin of my friendship with Mohamed Shoaib, who later became Pakistan's Minister of Finance.

My background had a great deal to do with the kind of assignments I got in the Fund. In the Fund, one of the arguments in support of my becoming a department director of the new Exchange Restrictions Department was that I was the only economist in the Fund who knew what an exchange restriction was. It was true; I actually knew what an exchange rate system was. I was able from the beginning to be concerned with things like the required Annual Report on Exchange Restrictions of all member countries as well as the issues in the Fund around Article VIII and Article XIV, for the distinction was between restrictions on current payments or on capital. This distinction was very deeply ingrained in the exchange control laws of the Sterling Area. Even in the balance of payments work in the Fund, I was always looked to as someone who was particularly familiar, which I was, with British balance-of-payments statistics. So, in addition to whatever else I was doing, I never did stop being an informal expert on India, and that goes on to this day.

OLIVER: Who were some of the important people that you knew? Did they include the person who came to be called TTK?

FRIEDMAN: Yes, it included TTK. It also included Deshmuk who had become the revered governor of the central bank. He was the first Indian Governor of the Reserve Bank of India whom I met first when I was still in the Treasury. He had become the governor of the Reserve Bank of India during the war in preparation for the day when India would be independent. I became . . .

OLIVER: Was TTK Finance Minister at the time?

FRIEDMAN: No. Another one I should mention was Theodore Gregory who at this time was already a very eminent economist and remained so. A number of Indian economists like Rao were people that I met at that time. All of them that I met were involved in some way or another with the Indian Nationalist Movement. They were members of the Congress Party, and had come visiting the United States in order to exercise some influence on the U.S. Treasury's attitude toward India, or the Monetary Fund's attitude toward India.

Compared to these other people, I. F. Patel was a late comer. He came to work in the research department of the Fund. He came from Cambridge. We got to know him very well. He became a roommate of Bob DeVries whom you know. (We at this time were very friendly with Bob DeVries. He was engaged to Margaret Garrittsen, who was very close to us.) He had some rather nasty experiences, being taken for Black in Washington. We were helpful in softening those. Bob DeVries was very helpful. I. G. Patel married a girl that we knew. She was a daughter

of one of the staff members, Das Gupta, an eminent professor in India. I. G. married his daughter. They spent their honeymoon with us in Maine. They wanted to avoid the embarrassment of being taken for Black on a honeymoon. These were examples of the intimate relationships with Indians and Pakistanis and in the Fund.

India was not my formal responsibility outside of that very early period, but I remained very involved partly because of my friendship with people who were directly responsible. Also, as head of the Exchange Restruction Department, I had a joint responsibility in major policy areas with the area people. George Luthringer was the first head of the Middle East and Asia, as well as Latin America, Area. Ebtehy was the Iranian who was head of the Middle East Department. All of them thought of me as someone very interested in India, and that remained as long as I was in the Fund. I. G. Patel was a brilliant young and personable economist. He did extremely well in the Fund. The chief of the Asian division was Chinese. The deputy chief was Anjarea. They became very good friends. Anjarea was a great admirer of I. T. Patel. Anjarea came back to the Fund in later years as Executive Director for India. He and I became quite friendly and had frequent exchanges of views.

He was brought back to India in the early 1950s to be chief drafter of India's first five year plan. It was under the Prime Minister Nehru. He was quite well liked by Nehru. They knew each other well. Anjarea sent me the first draft of the Indian Five Year plan for my personal comments, not in my Fund capacity.

Anjarea was one of the few persons I consulted when Woods asked me to come to the Bank in 1964. Have I told you this story? It illustrates a lot. Anjarea was the Indian Executive Director. We were having lunch about this offer from Woods. Anjarea had very poor vision. His vision was terrible. When he wanted to read anything, he would bend over to where his eyes were only a few inches from the surface of the table or desk to read. I told him about this offer. I expressed certain qualms. I was leaving the Fund where he thought I was a good influence and going to the Bank. I told him, "Well, you know, if I go to this job, I'll be able to bring about closer relations between the Fund and the Bank." He bent his head as if he were reading something way down near to the table, his nose nearly rubbing the table. He shook his head dolefully and said, "The one thing you don't want to have is cooperation between the Fund and the Bank. We in India can only survive because the Fund and the Bank do not cooperate with each other." I didn't know what he meant until I went to the Bank and saw the differences between the two institutions. I came to understand what it meant to an Indian able to walk from one building to the other to try to get support for a proposal which the other institution thought was impossible.

OLIVER: It is probable that Alan Sproul was associated with the mission of the Wiseman which may have included George Woods. It is probable that Woods association with the Philippine Development Bank, which had already been in existence, was around 1960. It is likely that the iron and steel industry, which was a project of the Birlas,

was around 1955-7. What about other Asian countries like the Philippines. Were you involved?

FRIEDMAN: When I came back from the Far East and Asia at the end of 1944, I found that there were very intensive discussions going on about the Philippine Independence Act and relations with the International Monetary Fund. I had just come from the Far East, and I was very impressed with the stories I had heard about the bombing of the Philippines by the Japanese and by ourselves. It was at this point, we were liberating the Philippines. I inquired in the Treasury what was being done with respect to the post-war Philippines. I was told by Treasury people that, as far as they were concerned, nothing was being done. I was told by Treasury in its typical way. If I wanted to do something about the Philippines, go ahead and see what could be done. I was told to get in touch with Abe Fortas, who was the Undersecretary of the Interior in charge, among other things, of the Philippines.

OLIVER: This was clearly before the International Monetary Fund days.

FRIEDMAN: Yes. One of the reasons why I could take this initiative was because, during 1942 and 1943, I had gotten to know the Secretary of Finance of the Philippines, a Mr. Hernandez, who got stranded in Washington after Pearl Harbor. His assistant was a young man named Virata. That was his entire staff. I was the one in our Treasury division assigned, among other duties, to the Philippines.

I went to speak to Secretary Fortas with the permission of the

Treasury. He expressed a great interest in trying to do something.

There was a long list of limitations on Philippine Independence in the Philippines Independence Act in the field of international economics and national trade. I was quite concerned that we were giving this country independence, and yet we were to have all these constraints on the new Philippine government after it became independent. I suggested changes and we rewrote the law. Instead of having all these different provisions, there would be reference to the fact that the Philippines would be a member of the International Monetary Fund and would be bound by all the obligations that they were incurring as members of the International Monetary Fund.

At that time, the two key issues were the trade issue, because we were giving preferences to the Philippines, and the exchange rate issue because the peso had been tied to the dollar. I was able to get this amended. It became part of the new law, the present law. I was able also to head up a departmental committee on the State, Interior and Treasury on the formation of a post-war Philippine aid program. I found myself in charge of the financial aspects of the Philippines post-war aid program. Anything we did required future Congressional action. A guy named Frank Waring was the person who later became the major domo on the Philippine program. He was a very intelligent. When we developed the program, he got a full-time job of administering it, as I recollect it.

For a number of months, I chaired this committee on the Philippine aid program. I got to know all the Filipinos, including

General Romulo, who at that time was in the United States getting support for the new Philippine government. Cuaderno became Governor of the Central Bank. They all thought of me as someone in the US Treasury, who was trying to get help for the Philippines. I was still in my 20s at the time. We were able to develop a fairly ambitious program for the Philippines. In fact, as I look back at it now, I am incredulous at how generous we were with the Philippines. Any decision that we could make that would increase the foreign exchange income of the Philippines was made that way.

The question came up What were we to do with the financial obligations that were incurred by the Philippine guerrillas who fought against the Japanese? Should they be fully honored? We decided they should be fully honoured. We even decided to fully honour obligations that were written on the sacks of paper bags, paper sacks, where some guerrilla officer would authorize us to give to a village some food or something. Moreover, we honored them at the current exchange rate for the US dollar. The amounts that were given to the Philippines were really incredible, but there was no opposition whatever. This was not a question of fighting anybody. Everybody wanted to be generous to the Philippines. We were being vigorously applauded for showing great imagination and ingenuity in figuring out how to give more to the Philippines in those days.

OLIVER: Has this stood the test of time?

FRIEDMAN: Yes. I feel that one of my lessons from the Philippine experience was that the Bank ought to engage in policy-based lending.

It ought to move away from project lending and really try to take a responsible role for helping countries formulate and execute a social and economic development program that was in the best interest of the country.

A second lesson affected the role of economists in the World Bank. I believe economists should become part of the decision-making process. Rather than thinking of economists as doing isolated, separated jobs (whether on commodities or on balance of payments or on the beginnings of external debt, for example, or even training like the Economic Development Institute), all of which are worthwhile, economists as a profession were, I found, not really part of the decision making process of the Bank. They were people on the periphery. I must say that I felt, even after I left the Bank, that I had not had as much success in that as I would of liked. It is a conviction that has stood the test of time.

I would have hoped in the years to come that economists would have played more of a role, but it would not be in a field of academic research. I had the feeling that we ought to be supportive of academic research where it was taking place. We ought to be pleased to provide funds for projects for academic communities that needed funding, like the Ford Foundation, but we shouldn't undertake the responsibilities of doing such work in our own institutions. We should be quite generous in our willingness to provide such support for outside research, because it was quite important for the whole world. But if it were put into the Bank, the tendency would be

either to belittle it in terms of importance or to get the people who were good at it involved in non-research policy-making decisions. Both were destructive of the other. The people who were doing research really should want to do research and not be working on day-to-day policy.

OLIVER: May I just interject to say that I agree with you -- whole heartedly in the case of the second. I have some doubts about the first, but we'll talk about that in a moment.

FRIEDMAN: The third one is that the mature role of the Bank as against its initiating role is to defend development -- and that means that we would try to get through that the Supplementary Finance Proposal. There is no institution in the world today that really has the role of defending development. There are a lot of institutions whose role it is to originate development whether it is agriculture, or food, or energy, or environment. The idea, however, is that once you have a development program in place the developing countries are particularly vulnerable to adversities in the world economy and need from time to time outside help from an institution that sees to it that the development program is carried on even in difficult periods. I am concerned that defending development everywhere, even in the more advanced, higher-income countries, is part of our task.

OLIVER: As George Woods would say, "I hear what you say."

