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**THE WORLD BANK GROUP ARCHIVES**

**ORAL HISTORY PROGRAM**

**Transcript of interview with**

**IRVING S. FRIEDMAN**

**December 11, 1985, and February 6 and 28, 1986  
Washington, D.C.**

**Interview by: Charles Ziegler**

**Session 1**  
**December 11, 1985**  
**Washington, D.C.**

**ZIEGLER:** Today is December 11, 1985. My name is Charles Ziegler. I'm in the Washington office of the World Bank with Mr. Irving S. Friedman, who has very kindly consented to participate in the Bank's Oral History Program. Mr. Friedman's association with the Bank predates its founding. He was chairman of the U.S. Government committee which undertook preparatory work for the establishment of the Bank. In 1944, he played an active role in the Bretton Woods conference. Mr. Friedman joined the International Monetary Fund in 1946. He came to the Bank in 1964, when he was appointed by George Woods as the Economic Advisor to the President. Mr. Friedman served in that capacity under Mr. Woods and subsequently under Mr. McNamara until 1970. In 1971 he became professor in residence at the Economic Development Institute. He retired from the Bank in 1974.

Mr. Friedman, to begin I'd like to ask you to comment on what I alluded to in the introduction, that is to say you were chairman of the U.S. Government committee which undertook preparatory work for the Bretton Woods conference. This is something which the Bank probably doesn't have too much information on as we didn't have a Bank at that time, so I think it would be very illuminating to find out a little bit about that.

**FRIEDMAN:** If you don't mind, I'd like to elaborate a little bit about this, in order to put it in a proper perspective. As you know, the International Monetary Fund and World Bank proposals were largely the work of the U.S. Treasury, and within the U.S. Treasury they were mostly the work of Harry White. He was the original thinker in all of this, along with some of us on his staff in the Monetary Research office. I was a member of the staff in 1941. I'd been called in in connection with what at that time was called the Defense Program. This was before the U.S. entered into the war. Much of what we were involved in was related to the war effort, and Bretton Woods was really kind of a sideline, anticipating the postwar period. Nevertheless, White had given a good deal of attention to it, as I understood, really by himself. He came out with draft proposals which were then submitted to members of the staff who would work on various aspects.

I had been brought in to the Treasury to be particularly concerned with countries in Asia: China, Japan and India were the principal countries at that time. That was because I had done my doctoral examination on foreign investment in the Far East and I had been recommended by my school to the Treasury. In fact, my first job in the Treasury was to do, for the first time ever, a balance of payments forecast for Japan. In those days they were considering the question of sanctions, the question of oil and oil earnings, and what it would do to Japan if there were various kinds of embargoes. I tell you this because it has a lot to do with why I got assigned to the various things that I did.

So after White came out with his proposals, Eddie [Edward M.] Bernstein was the

principal staff person under him who organized the work that led to the Bretton Woods conferences. Sometimes it's forgotten that by the time of the conference over 90 percent of the work had already been done. The Bretton Woods conference was very intelligently organized in that it did not meet until there was a very wide area of agreement even on the details of the Monetary Fund proposal. It was originally called the U.S. Stabilization Fund proposal, but after discussions with the British and [John Maynard] Keynes--that's been very well documented--it came to be called the International Monetary Fund proposal. I worked on that, mostly on things like the calculations of the Bretton Woods formula. I was a principal author of the Bretton Woods formula which was used to decide the relative quotas in the Fund and the Bank. I was regarded as someone who knew a great deal about national income accounting, and particularly on how to mass link an estimate into what we would now call developing countries.

Because of this background, I was sent out to the Middle East in early 1944 to cover Egypt and Saudi Arabia, and I was stationed in Cairo. Then I was sent to India and China. So, as a matter of fact, I was not at Bretton Woods. Actually, I went to China so that the person who was the Treasury representative in China could accompany the Minister of Finance in China to the Bretton Woods conference--I was at that time the acting financial attaché of the embassy in China; I was also the acting financial advisor to the commander-in-chief of the China-Burma-India theater of command--in order to enable the financial advisor, who was the brother of Dean Acheson, to attend the Bretton Woods conference. I didn't actually get there myself. The reason I mention that is because people always refer to me as having been there but I wasn't.

**ZIEGLER:** I knew you were associated with it. I tried to look you up in the *Proceedings* and I couldn't find you.

**FRIEDMAN:** I was working on it in detail for two years, and then at the end of 1944, which was very soon after the Bretton Woods conference, I was called back. I went back to the Treasury and back to work on what at that point in time was being referred to as the Bretton Woods stuff. Before that it was referred to as the proposals for a fund and a bank. Under the Bretton Woods Act of the United States for U.S. accession to the Bretton Woods agreement, there was formed a so-called National Advisory Council for International Monetary Affairs, a very high level cabinet committee which was chaired by the Secretary of the Treasury and the Secretary of State. We referred to it as the NAC, and to support it there was an interdepartmental committee of representatives from the Treasury, the State Department, the Federal Reserve, the Export-Import Bank, and the Commerce Department, if I remember correctly. I was put in charge of the staff work for that committee. It was brand new and existed only on paper. In doing the staff work it was then appreciated that a lot of detailed work had been done for the preparation of the IMF, but not for the World Bank. Therefore, they needed a committee concerned with how to make the World Bank proposal operative, to translate it from paper to a going organization, which the U.S. was acceding to, so that there was no question about its coming into existence. I was put in charge of that interdepartmental committee, which was part of the work of the National Advisory Council.

The National Advisory Council had to decide a lot of things because there was no other body authorized to do it, and it had to have recommendations from the staff.

Such things as the ability of the World Bank to invest in U.S. Government bonds, for example, was one of my proposals in order to keep the World Bank out of the red. I felt that the Bank should never be in the red, but obviously, until it made loans it had no revenue. So I proposed, and it was agreed, that the World Bank could invest the U.S. contribution and other dollar contributions in U.S. Government bonds. Even though U.S. Government bonds in those days were paying about two percent interest, the fact is that in terms of the revenue needs of the Bank it was the simplest organization. We were in the black from the day we opened the doors of the World Bank. That was the kind of decision--it was not the big decisions about whether or not the World Bank should exist, because that had already been decided at Bretton Woods. That's the kind of stuff I worked on before I went out to the Middle East and to the Far East. I worked at that all through 1942 and 1943. That was a considerable part of my total work, but not all of it by any means because most of my work was dealing with war finance, with how to finance American troop pay in India and how to help China, and a continuation of military occupation work like preparing military handbooks for when we liberated the countries in the Far East. So that was really--I'd say at least 50 percent of my time was devoted to that kind of thing and at most half of my time was devoted to what was called Bretton Woods work.

After 1945 I worked on the Fund and on the Bank but the Bank had this particular organization. In relation to the Fund, I was in charge of the balance of payments work that was going on and then I was in charge of another committee which was the first postwar aid program. This was before the Marshall Plan and Lend-Lease had already been abolished, so this was really a program on what the Export-Import Bank should do. No mind you, when I say I was in charge, I mean I was in charge of the staff work. I'm not--Decisions were being made at the cabinet level, but I was in charge of the interdepartmental committee. That was very important because that working relationship with all the senior experts in this field was something I carried over into my work in the Monetary Fund and the World Bank, and it's important to me to this day. Some of the people like Bernie [Bernard] Bell, who becomes very important in the World Bank's history, was someone who at that time was the chief economist for the Export-Import Bank on these matters, and he became a member of my working committee, you see. Similarly, on the balance of payments work, people who are leading experts, like Walter Gardner in balance of payments work, were on my committee. So a lot of what I got involved with in the Fund, and later carried on in the Bank, had to do with its origins in this work.

By the time I got to the Fund I was considered an expert on national income, on balance of payments analysis, on foreign aid programs, and on the World Bank, as well as on the Monetary Fund, and on the quotas. For example, I was the one, if I may say, who took the initiative for getting an increase in the quotas of the Fund and the Bank in the first five or ten years of both organizations. Again, I was an expert. As a matter of fact I knew a lot about the provisions in these Articles about increasing quotas, and so years later when I went to the World Bank I'm put on the IDA [International Development Association] increase, you see, the capital increase, because, as a matter of fact, although now it looks far away, in 1964, 1946 was not that long ago. And in many people's minds I was someone who had been quite active in this whole question of the capitalization of the World Bank as well as the Monetary Fund, in terms of quotas. And so I was considered--and I did know--a good deal of the history of these things, a good deal of what was intended and why the quotas were

what they were, and what the Bank was supposed to do. I knew it was supposed to be a guarantor organization, for example, rather than a lending organization, and I knew that we weren't supposed to be only a project finance institution. So I never bought the conventional wisdom in the World Bank that what you really ought to do is only do project finance, because I was there at the beginning. I knew that we hadn't really made that sharp a definition at the World Bank. We just wanted it to be as useful as it could be. We weren't very clear in our minds what it was going to do except that we wanted to capitalize it and give it enough authority so that it could do something important and significant both for the reconstruction of the war-devastated areas and later what was considered development issues.

I take a lot of pride in the fact that the mechanisms that I set up for the National Advisory Council still exist. It is the longest enduring interdepartmental group that has not been changed over many administrations. It still operates the way it was set up, with the same kind of staff work.

In 1946 when I was looking for a post-war job--I had decided that I didn't really want to make a career in the U.S. Government--I had the opportunity of going to the Fund or the Bank because of this background in the Bank. But my primary interests were in the Fund because I wanted to work on the U.S., which I had never done after having gotten my doctorate and gone to the Treasury. I wanted to have a chance to work on the United States as an economist, to get some kind of roots there, and become involved with the analysis of the U.S. economy. In those days you had a kind of menu of jobs because there was only an organization chart but no people, so you had some kind of choice as to what you might like to do. I wanted to head up the United States work in the Monetary Fund and that's why my first job was in the U.S.-Canada Division. Now the reason it was Canada was because during the war one of my Treasury assignments was on financial relations with Canada and a certain thing called the Hyde Park Agreement whereby we were attempting, through procurement in Canada, to offset the adverse affect of their war effort and of their help to Britain on the Canadian balance of payments. We were promoting special procurement in Canada to enable them to build up their monetary reserves which they had depleted on behalf of the British war effort before we entered the war. That was called the so-called Hyde Park Agreement. There were two of us, one from the Canadian Ministry of Finance and one from the U.S. Treasury, who were working on that. That was one of my duties during the war, so by the time the war ended I was considered an expert on Canada. Therefore it was decided--because I was interested in the Canadian work, too--to make it one division called the U.S.-Canada Division. That set the stage for the rest of the history of the Fund. There's always been some sort of a Western Hemisphere Department, and now there's a North American Division that deals with the U.S. and Canada. But that's how I got involved in all this, when I started my career in the Monetary Fund.

Within two years I got appointed policy assistant to the newly appointed Deputy Managing Director and Vice Chairman. After doing that for about a year or year and a half, there came the formation of a new department to implement one of the provisions, so-called Article 14, of the Fund Agreement. It had provided for the retention of so-called transitional arrangements. They decided they better have a department dealing with that subject, and in the Article it was called exchange restrictions, so the department was called the Exchange Restrictions Department,

although actually that didn't really describe well what it did. Now it's called the Exchange Trade and Relations Department, and what they do is much closer to what we did then. I became the head of that department in 1951 and remained in that job until 1964.

We invented annual consultations with the countries. It never existed before. I'm very proud of that. We introduced it. I had twice threatened to resign from the Fund because this idea had tremendous opposition from the member countries, including some of the countries who are now the most strong supporters of conditionality. At that time I was considered the father of conditionality, which I'm not sure is something to be proud of. But, nevertheless, I was proud of it. I guess I still am. All that was done under the umbrella of annual consultation with countries on their need for restrictions on their international payments and on exchange rates. Then, within a year, we related the use of the Fund resources to what they were doing in those fields of international obligation, and out of that came the notion of conditionality. Eventually we would relate what a country did to meet its obligations under the Fund Agreement, or to create the conditions that enabled it to meet its obligations, to its access to the Fund resources. That was my response to what had been a really paralyzing controversy in the Fund, as to whether the Fund should be operated on an automatic or non-automatic basis.

The British had, from the beginning, always favored an automatic Fund. This has been very well documented and described elsewhere. The American attitude was always more ambiguous. It wasn't quite sure what it favored. The compromise in the Fund, as you well know, was this idea of a 25 percent usage [inaudible] of a quota, but the Americans tended to be more open to the idea of some administration of the whole thing.

**ZIEGLER:** Mr. Friedman, you alluded, in your response to the first question, to Harry White. I think it's fair to say if anybody is the father of the World Bank he probably is. As you worked with him, I wonder if you have any insights that would be useful to somebody who would like to understand the wellspring, so to speak, of his desire for the establishment of the World Bank.

**FRIEDMAN:** I think that I'm going to leave aside all these questions of security and stuff like that. Again, that's been thoroughly discussed and written about. I think your question is more interesting to me, and one that tends to be neglected.

I had a different perception of things because I was working on developing countries, which became much more important in terms of the future of the Bank, than others who were working, say, more on the price of gold or gold operations and stuff like that which got incorporated into the Monetary Fund. I was also working on the national income of different developing countries. I was the one who did the calculation for the national income of all developing countries outside of Latin America. There were no national statistics and I did them myself. So that got me involved much more on the developing country side.

Now I think I have to emphasize that in the context of the work most of the interest was not in the developing countries. Most of the interest, as a matter of fact, was in the United Kingdom and on what was going to happen in Western Europe, and to

some extent in Japan, but not all that much. What I was working on was part of the mainstream but it wasn't the center of the mainstream, and I think that's important to keep in mind. You didn't have as much discussion about developmental issues as you did, for example, on the whole question of the theory of exchange rate stabilization, or on whether or not there ought to be just exchange rate stabilization vis-à-vis the so-called key currencies, or whether or not you should have a universal convertibility or just a convertibility of the dollar into two or three main currencies. These were the kinds of things which preoccupied people during more than two to three years of discussion. The developing countries were really a lesser issue. I wouldn't say a side issue but a lesser issue. Latin America was treated by itself as a special interest of the United States and the U.S. stabilization program. The only two Operational stabilization programs in the United States, where we were supporting an exchange rate stabilization effort, were actually Mexico and Cuba. So Latin America was a separate issue and I didn't deal with Latin America except as a colleague of the other people who were dealing with it. There was a group of us who were working on everything, but my field of specialization was in non-Latin American developing countries. They were what we call today the Middle East and Asia, because Africa of course didn't exist as a developing country. South Africa existed but then South Africa was the gold problem, it was not a developing country problem.

I didn't talk to White at any great length about developing countries. But what I did find all the time was that he was very sympathetic to the idea that the World Bank should play a positive role in helping these countries. In those days we just called them not developing countries but, more candidly, less developed countries or underdeveloped countries. So he was very sympathetic to the idea that international organizations like the Fund and the Bank, but particularly the Bank, would have a special role in trying to do something for the underdeveloped countries. Remember that in the '30s it was the underdeveloped countries that get smashed during the depression. They were the countries that repudiated debt. They were the countries where you were dumping coffee into the ocean and burning wheat or burning whatever it was. India was flat out during the 1930s. It was just a disaster area. Of course China was a different kind of situation. It was a political disaster area because all during the '30s you had involvement with Japanese military actions on the China mainland and actions and counteractions, so it wasn't the economics of China that was the primary interest. But in India and Latin America there was a lot of interest in the economic situation. This is the time when India was exporting its gold and silver to the world, in order to pay for what we now consider the adverse balance of payments of India. So there was a lot of interest in these countries, and White was very definitely of the mind that the World Bank was going to be concerned with them and do something about them.

Another country we were particularly interested in was the Philippines. Again, in the Treasury I was in charge of developing a postwar aid program for the Philippines. This was under White, in the sense that he was very sympathetic to the idea of trying to develop a program for the Philippines. The World Bank would have been developing a program for the Philippines, had it existed in 1945. But it didn't really get into operation until a year or two after the war was over.

So I had the impression of a person very interested in the less developed countries, very interested and very concerned that the World Bank would play a positive role.

*Irving S. Friedman*  
*December 11, 1985, and February 6 and 28, 1986 – Final Edited*

But he knew these preoccupations were not central to what the Treasury was doing. It was in that role that I saw White, as a Treasury official. Whether privately he really thought that this work on developing countries would prove in the end to be much more important than people thought at the time, I don't know. He didn't say so. I have no knowledge to that effect. But he was very positive in his support of the World Bank--not only support but advocacy. The World Bank has never been controversial like the Monetary Fund. Again, that influenced him a lot. A lot of what we were writing and talking about, the exchange of views on a bilateral basis and then on a more global basis, were major issues for the Fund, not for the Bank. They were just not as controversial.

**ZIEGLER:** If I'm not mistaken, a lot of the issues that were hashed out in the establishment of the Fund really smoothed the way for the Bank in a sense. They're different issues, true, but . . .

**FRIEDMAN:** Yes. For example, when I worked on the quota formula, which was a major issue, it was a quota formula for the Fund which we then applied to the Bank. That's an example of what you're saying. When the whole question of the exchange rate and economic policy arose, it was regarding the Fund where convertibility and exchange rates, bilateralism, and restrictionism were discussed. This was right after the Nazis had made bilateralism a way of life. These were all very controversial things at that time and they were discussed in the context of the Fund. But once it was discussed in the Fund, it was assumed that that was the background and the framework for the World Bank.

There was never a big discussion in the World Bank, as far as I can remember, about, for example, the idea of multilateral procurement, and the idea that it should be a non-discriminatory use of the Bank's resources. It could have been all tied aid, each country providing tied aid. But it wasn't because in the Fund there had been a good deal of discussion of a return to a liberal trading and payments system. The resolution at Bretton Woods in favor of a multilateral trading system and the International Trade Organization was part of a general philosophy that what was wrong with the world in the '30s, which had led to the economic breakdown of the world which, in turn, had been one of the major causes of the political breakdown leading to war, was the breakdown of the international liberal trading system. So, in that context, the notion emerges that something like tied aid is obviously not good because it's contrary to the principles of the liberal trading system.

A lot of the big policy issues which are implicit in the World Bank agreement were really fought out in the context of the Fund. I have a much more vivid image of White as an advocate of a liberal trading and payments system than I have of him in the field of development. It was in that context that he talked about why he believed the world had to reduce protectionism and return to what we would still call a liberal trading system. Concerning development, when it came to the postwar aid program he was very sympathetic. For example, we did a lot of work with UNRRA [United Nations Relief and Rehabilitation Agency], the relief organization. A couple of us were representatives of the Treasury to the interdepartmental committee of UNRRA, and I was one of the two. He was very much supportive of Governor [Herbert H. ] Lehman of New York and Mayor [Fiorello] La Guardia of New York City who had been brought in by [Franklin D.] Roosevelt to play a leading role in

developing a relief program for developing countries--poor countries--as well as for Europe.

[Ahmed] Zaki Said, who represented the Middle Eastern countries, practically worshipped Harry White. He was the Egyptian who was at Bretton Woods. The Ethiopians, who were among the few independent African countries, perhaps the only independent black African country, were great admirers and supporters of Harry White. All the Middle Eastern countries admired him: the Syrians, the Iranians, the ones that were independent enough to be represented independently. He had great support from the Indians and was very friendly with Mr. [J. V.] Joshi, who was the Executive Director for India and had been the Commerce Secretary and a member of the Viceroy's Council before he came to the Monetary Fund. He was a great supporter of White because White was considered to be among the very few people in the U.S. government who were paying any attention to these countries at the top level. But, looking at it as someone from the inside, I still wouldn't conclude that he spent a lot of time on it. He just spent more time on it. He was a very important person at that time and was perceived to have great political influence because of his close relationship with the Secretary of the Treasury [Henry Morgenthau], who in turn was regarded as one of the very few people who really had influence with President Roosevelt, who had his complete confidence. Henry Morgenthau worked 24 hours a day to enhance the reputation and the historical position of Roosevelt. Harry White was considered to be very close to, and have great influence with Morgenthau, and was known to the President as someone who was very loyal to him, and so this impressed the Indians.

For example, when the whole question of sterling balances came up during the war I wrote the first memorandum that was ever written anywhere, outside perhaps of the United Kingdom, on sterling balances. The reason it came up--again a Fund issue in the Bank--was because in relation to the Fund the question was how to count sterling balances, both in terms of convertibility of currency--blocked sterling--and in terms of the Indian. Should they be counted as the reserves of India? The British at that time had been urging that these sterling balances be slashed, either abolished or cut in half, so that they would be reduced as an external debt burden, which is what they were for the United Kingdom. The Indians, although still part of the British Commonwealth and not independent, were acting very correctly from the point of view of India. They took their autonomy in economic affairs very seriously and were acting like an independent country.

They came to see me, as the Asian person in the Treasury. I must have talked to White about it--I've forgotten now--but I wouldn't have done a major memorandum without his knowledge on how to treat the sterling balances without his knowledge, on why I thought they should not be abolished but should be left as an inheritance for Egypt and India.

One of the reasons why the Egyptians were so fond of White was that he was seen as someone who did not want to abolish the sterling balances. The legacy the Egyptians had from the war was an accumulation of what in those days were already billions of dollars worth of sterling balances. The sterling balances of Egypt and India would be equivalent to something like 50 to 100 billion dollars today. So you're talking about amounts much bigger than the whole Monetary Fund. The fact that the U.S. Treasury,

which was personified by Harry White, was defending Egypt and India in discussions with the British was known within those circles anyway. It's not a matter of public knowledge, but is known within those circles. So Harry White and anybody who worked for him was well regarded.

When I went to the Monetary Fund one of my first jobs was acting chief of the Middle Eastern Department and I was acting chief of the Asian Department until they found proper people from those areas to serve as division chiefs. To this day I have very strong support from Middle Easterners and from Asians, and it all goes back to those days. I'm sure many people don't know this anymore, but it goes back to those days when I was identified as someone who cared about Middle Eastern and Asian countries, as well as understanding them. So for all the Indians coming to the Monetary Fund I was the first port of call. I became a friend of India and am known as a friend of India and Pakistan to this day. As a graduate student I had no background in those areas. It was all accumulated in the Treasury and it all flourished in the Fund. Then when I went to the Bank it became very important. In fact, one of the groups that urged me to go to the Bank was the Indians because they thought I would be a good influence. Not that they needed it, because they had more support in the Bank than any country really needed, but it didn't do any harm to have someone else. I always felt that one of the reasons why [George D.] Woods had sought me out was because one of the Indians, as well as others, had said something nice about me and India was a country Woods was particularly interested in.

**ZIEGLER:** This leads into my next question. I would be very interested to hear you recount the events leading to your appointment as The Economic Advisor to the President, and you have led into that very nicely.

**FRIEDMAN:** I'm afraid I'm talking like a shuttlecock, just moving back and forth over the net.

To go on from there, I'm still sort of puzzled, 20 years later, in my own mind why I ever decided to go to the World Bank. When I went over to the World Bank I had a very enviable position in the Monetary Fund. I had been the senior department director. All that meant--I don't want to exaggerate it--was that I had been a department director longer than anyone in the Fund had been. The person who would have been there longer, had he stayed, was Eddie [Edward M.] Bernstein. But he had left by--I forget exactly--but I would say he had left by 1960. It was then 1964, and I had had very close relations with [Ivar] Rooth, and then [Per] Jacobsson, and then [Pierre-Paul] Schweitzer who was an old friend of mine and who, as a friend, strongly voiced doubts about the wisdom of going to the World Bank. As he put it, I was the third man in the Fund and I would be that for the rest of my career. The Fund had a very strong kind of civil service, career service, a European type of respect for sheer seniority, which I had. And I had been, as he said, the most influential person in the Fund, and I think that was pretty widely recognized. In those years there was no one in the Fund who even came close to myself on the staff level. The two people who were more important in the Fund were the Managing Director and a fellow named [Frank A.] Southard, who was the Deputy Managing Director. Actually, I had been proposed by Jacobsson to become Deputy Managing Director in the Fund. I had been at the top salary level for ten years at that point, so there was no question of my being underpaid or underprivileged in any way.

To this day I kind of wonder why I ever did it. One of the things that I know influenced me was that I had been in this position for 14 years, running all these consultations, and I had been urging the Fund to do much more about developing countries, during the last four or five years. In fact, this is all there now in the history of the Fund. I had been urging the Managing Director of the Fund, first Jacobsson and then Schweitzer, that we should be trying to have a much more considered view about the adaptation of foreign policies to developing countries. I had felt that we were not doing enough to recognize the special needs of the developing countries. This happened, for example, with the Society for International Development which I became the president of, and which was an unusual thing for anyone in the Monetary Fund to be even interested in. Again, I think it goes back to the fact that, after all, I started my career on China, Japan, India, and I had studied Japanese. I had never lost that kind of intellectual interest in developing countries and I was very sensitive to the fact that the Fund, in my opinion, was dealing less and less with the problems of developing countries in a way that it could.

The other thing I think, quite honestly, was that about a year or two before the Deputy Managing Director post had been filled by Frank Southard. Frank had been the U.S. Executive Director in the Fund for about 10 years at that time. He was very highly respected in the U.S. Government, and highly respected in the Fund. He became the Deputy Managing Director after a fellow named [H.] Merle Cochran had retired. I knew from what my American friends had told me that Jacobsson had said that if anyone from the staff would be appointed Deputy Managing Director, I would be the one he would recommend. But the Americans had decided that they wanted Frank Southard, which was very sensible. He was a very outstanding person and, unlike myself, he had never left the U.S. Government. I had left it in 1946, but Frank never left it. Well, he left it for about a year to go back to Cornell where he taught economics, but then he had come back. He was a very loyal and very efficient guy and very knowledgeable about the Fund. So he became the Deputy Managing Director. Frank Southard and I are not quite the same age; Frank is about five to ten years older. It was clear though that I wasn't going to be Deputy Managing Director in the foreseeable future, so I guess maybe greed had something to do with it. I was going to have the position I had, and in fact Southard was one of the ones who thought I was making a mistake to go to the World Bank. Like Schweitzer, he couldn't understand why I would ever want to give up what I had at the Monetary Fund to go over to what Schweitzer described as those captains of industry. When he said it, it was with great scorn. This was not a compliment from Pierre-Paul Schweitzer, who, by the way, had gotten to know Woods by this time and liked him very much as an individual. It had nothing to do with Woods as an individual. It had a lot to do with his attitude about the World Bank at that time.

I had always had this sort of background in the World Bank and background in development, and then Woods called me over to lunch one day and asked me whether I would want to be considered to be the Vice President in charge of economics. At that time there were two people at the vice presidential level, Geoffrey Wilson and Burke Knapp. I would be the third. That was sort of keeping, in the World Bank, more or less the equivalent of what I had already achieved at the Monetary Fund; it wouldn't be going backwards career wise. I had a great regard for the World Bank.

I spoke to a few friends, and I remember two or three who were most important for me. I spoke to Bill [William McChesney] Martin, who at that time was Chairman of the Federal Reserve Board and whom I had gotten to know very well back in 1948-49 when he was assistant secretary of the Treasury and dealing with a very close friend, Andy [Andrew] Overby, who was Deputy Managing Director of the Fund whose policy assistant I became. Andy Overby and Bill Martin were perhaps each other's best friends, and I became a third in that group. I was not nearly as close to either of them as those two were to each other. I was very friendly with Martin, although never as friendly as I was with Overby. When Bill became Chairman of the Federal Reserve Board I visited with him from time to time. So I asked him about this, and I remember very clearly what his answer was: "Anyone who has a chance to work with George Woods doesn't turn it down." He had been the U.S. Executive Director in the Bank as Assistant Secretary of the Treasury, as you know, but his recommendation was really personal.

Then I spoke to my friend Charlie Koonze [phonetic], who was the senior vice president at the Federal Reserve Bank in New York. Charlie was an economist and had a doctorate from Harvard, and he and I had been together in Cairo. In fact, I was his front in Cairo. I was in the embassy and he was fighting Nazis in the back alleys as a counterintelligence agent in the guise of being an economist. He and I had gotten to be very close friends after the war and we stayed close. In fact, I had tried to induce him to come to the Monetary Fund, without success, instead of going to teach at Harvard. Then the Federal Reserve Bank in New York picked him up, and he did very well there. I remember talking to Charlie, asking him what he thought. He said, "There's no question, as far as I'm concerned and the New York financial community is concerned, that the Fund doesn't count. The Bank's the only important institution in Washington. If you have a chance to go and work with Woods at the Bank, by all means you should do it." It was interesting because his recommendation was not about Woods because he didn't know Woods. It was about the Bank. He had met Woods as a senior person in the financial community, but he really didn't know him the way Bill Martin knew him. Woods was a leading figure in New York financial market and Bill Martin, by this time, had been Chairman of the Federal Reserve for a dozen years or more, so he had met Woods repeatedly and obviously felt he could make a personal judgment about him.

Then I talked to two or three other people like [Pieter] Lieftinck and Eric Roll. Eric Roll was the Executive Director for the U. K., whom I knew very well, and Lieftinck was the Executive Director in the Fund. Both of them said, "You know, you should go to the Bank because marginally they really need you at the World Bank." They had a very uncomplimentary view of the World Bank staff as being very bureaucratic, very arrogant, very self-contained, very enclosed, and they felt they needed someone like me. You see, I was by that time quite a famous person. There was no one in the World Bank who really matched me in international eminence, so if I went there I'd be a person who had great influence because I didn't have to work my way up. And I would be coming in as the personal appointment of the President. Obviously that was another big plus, because everyone recognized that the World Bank was run by the President and what the President wanted was what really happened. So coming in at Woods' request, and not as a candidate of the U.S. Government, put me in a very strong position.

Then I was approached by the U.S. Executive Director of the Bank [John C. Bullitt], and by the U.S. Executive Director of the Fund, Bill [William B.] Dale. They took me to lunch and said, "We understand Woods is approaching you. You just have to do it. You owe it to what you are, to what the Bank is, and to what the Fund is." Of course these people knew that I had never been only Fund as against the Bank, that I had had this intellectual interest in developing countries and played a little bit of a role in the formation of the World Bank. For example, in the World Bank I wrote the first annual report. They didn't have anybody there to write it so they asked me whether I could. Morton Mendels would have it somewhere in his diary. He's the one who asked me. I'll never forget him saying, "You know we haven't done anything in that first year. You're a good writer"--I was known as someone who could write—"maybe you could write us a few paragraphs instead of loans because we haven't made any loans." So I wrote the substantive sections. Maybe it was two pages long; I don't want to exaggerate this. But I was considered by the old timers like Morton Mendels, who had been involved in the World Bank's formation, as someone who had an interest in the World Bank from the very beginning. The two U.S. Executive Directors knew that and they said the U.S. Treasury, in that sense, was urging me to take the job although I wasn't their candidate, and in fact I never had been their candidate for any job. My strongest point in the Treasury was when Bill Martin was the Assistant Secretary of the Treasury and I was appointed the first department director in the Fund on this new department [inaudible].

I suspect that Bill Martin, although he never said anything, had a lot to do with making me acceptable because I was umpteen years younger than anybody else for that job. When I became a department director at the Fund I was 35 years old and the other fellow in the European Department was 55 or 65 years old. We only had a few directors at that time, so it was very unusual.

In my appointment by Woods I was clearly supported by the U.S. Government, but it was his idea. Where he got the idea, I don't know.

Now when he first approached me, he put it in terms of the fact that he had two candidates: Alec [Alexander K.] Cairncross, who at this point was economic advisor to the U.K. Treasury, and myself. He told me that and he was quite honest about it. He said he was in touch with Alec Cairncross and myself and he wanted me to know that these were the two names that he was soliciting. He was asking Alec Cairncross and also asking the British Government whether Alec Cairncross would be available. Cairncross at that point was in the government, whereas I wasn't in the U.S. Government so he didn't need to clear it with them. Then he asked me what I thought of Cairncross. I remember that very clearly and I told him I thought the Bank couldn't do better. He was one of the people that I rated extremely highly. I had gotten to know him personally, starting when I don't know, but probably back in the early days of the Monetary Fund, perhaps in the fifties, and I thought very highly of him. Then very soon afterwards Woods told me that Cairncross was out. My impression then, although I can't be absolutely certain about this, was that he was just vetoed by the British Government, that they simply wouldn't let him go. Then there really wasn't a decision for Woods to make, since he had narrowed it down to the two of us, and Cairncross was not available. To this day I do not know, and Alec and I have sometimes talked about it. None of us will ever know what would have happened. We both interpret it that way because Alec had a very outstanding reputation, had

done things for the World Bank, and had helped form the Economic Development Institute [EDI]. He'd been an active figure in the World Bank, whereas I had been a person known to be interested in it, but not active in its history in the way Alec Cairncross was from time to time. I think it was simply because he had been pulled out.

All this was happening over a framework of maybe two or three weeks; it was not an extended thing. Then I kind of agreed to come. Over lunch—just the two of us; I've never spoken to anyone in the Bank about this--Woods told me that he had spoken to President [John F.] Kennedy and President Kennedy had told him that the U.S. foreign policy would never succeed unless they built a bridge between the United States and the developed world and developing countries. Then he turned to me and said, "I want you to build a bridge. That's going to be your assignment." So that's what got me. I never forgot.

I remember I was kind of scared to go to the Bank because of my friend Zaki Saad from Egypt, who had become nearly a father figure to me. By this time we'd known each other for 18 years and we'd traveled together. He was very deeply involved in the Fund's work with the GATT [General Agreement on Tariffs and Trade] and he was the Executive Director who was most involved in the Middle East in GATT work, and I was deeply involved in the Middle East in GATT work in its early history, so we got to know each other very well. He said, "You don't want to go to the World Bank. They've got long sharp swords; they'll stab you to death. The more they smile at you, the more they'll stab you." He shook me up because I knew he loved me. He was very personally concerned about me and very pleased and proud of my career in the Fund of which he, I'm sure, was always a very active supporter and had helped make possible. He was among the two or three leading Executive Directors all during the history of the first 20 years of the Fund. I would say he was the number one Executive Director, because he had the U.S. in his back pocket. Frank Southard was a great follower of Zaki Saad and so he had tremendous clout. This was his advice, but he said, "If you go there you have to be very careful." So I had a lot of qualms about it.

Then I went to see Frank Southard, and he said, "What do you want to do that for?" He was very loyal to the Fund, and his idea was that anybody who would even think of going to the Bank was showing extreme disloyalty to the Fund. Here I had been loyal to the Fund, and we'd gone through some tough times in the Fund together, including the Harry White period which was really rough stuff. To be loyal to the Fund was not as easy a thing as it is now because it meant all sorts of things. It meant loyalty investigations. It meant you were scrutinized in a way you never would have been elsewhere. Nobody in the World Bank ever got the kind of treatment we did in the Monetary Fund.

I remember going to a luncheon party given by the Spanish ambassador. This was the time, of course, when Franco was still the head of state of Spain. It was a very lovely luncheon at the embassy and the two guests of honor were Mr. [Robert L.] Garner, who was at that time the only Vice President of the World Bank, and I. During the course of the luncheon the ambassador had occasion to ask Garner about the difference between the World Bank and the Monetary Fund. Bob Garner and I were very friendly, so his answer was nothing personal. Bob had been chairman of General

Foods and was a very respected guy, very tough, organized, and had a lot to do with whatever efficiency the World Bank did have. [Eugene] Black at this time was very busy being a world statesman and having the Shakespearean festival and Garner was running the Bank. So he answered, "Of course the Fund is that place where all those communists work." That was his only comment on the Fund.

So Frank and I had remained loyal to the Fund all through this period of time, and we weren't the only ones, but having lived through the Fund for 10 years, you had lived through some very difficult times together. By this time the Fund was way out of the woods. We were very highly regarded and doing great--not as great, perhaps, as they are doing now--but we were very highly regarded. By 1964 this was 10 years behind you, but for Frank and I who had lived through all this we had a very deep idea what it meant to be loyal to the Fund and to this day I regard myself as very loyal to the Monetary Fund. Frank said to me, "Irving, what do you want to go there for?" And then he said, "In any case, you're too old to start a new career."

I remember going home to my wife and telling her, "My God, Frank has just said I'm too old to start a new career." And that's the day I decided to go. That just tipped me. One way or the other, I have never been sure how I would have decided because I had a lot of attraction to the World Bank and a lot of attractions in staying at the IMF. At that time I was going on 49, and the idea that at 48-49 I was too old to change was just outrageous. But still there was enough truth in it to make me realize that if I was ever going to change, such opportunities only came a few times in a lifetime. I would be the chief economist of the World Bank, and I had a tremendous regard for what the World Bank was doing and for what conceivably might be my role in it. Here I was approaching an age where people were beginning to say maybe I was too old to change. All that added up to my coming.

Woods came back during those early weeks and said, "Siem Aldewereld is making a fuss about you're coming; he thinks that he ought to become a Vice President. He's Dutch, and there's an Englishman, and an American, and there's no one from Europe, and he thinks he ought to be a Vice President." He was also a member of the Dutch delegation and so forth. He said, "I've agreed to make him a Vice President. Then the question is whether we can have four Vice Presidents. We already have an American," he said. "What will I do about that?" I remember being in Ridgefield where my wife's family had a country estate and we were rowing on a lake and talking about this. He said, "You've got to think about this and call me back. What do you do about that?" He sort of looked upon me as the problem solver of bureaucracy because I was a veteran of bureaucracy in the Monetary Fund, as well as in the Treasury, so I was not at all fazed by this kind of problem. I was the one who came through and suggested that I be called The Economic Advisor to the President. There had been economic advisors in departments already, so that was established, and making The Economic Advisor to the President would mean that it would be seen--and it would be announced--that it would be at a rank equivalent to a Vice President. Woods agreed that in any communication that I had with anyone outside the World Bank, I could use the title Vice President, as well The Economic Advisor to the President, if I felt it was desirable, and sometimes I did. We actually used that title, particularly in communications with Europe where translating it to be--Schweitzer put me on to this--a conseiller is not the same thing as being a Vice President. It doesn't have the same connotation at all. He said, "You Americans do

anything, but in Europe a conseiller is a conseiller, he's not in charge." So with Europeans I often signed communications as Vice President. But my official title was The Economic Advisor to the President, with the rank of Vice President.

Then we talked about substance. He said--which I thought was very revealing and in a way very moving--he said, "I want to say that I really believe that the IDA should become bigger than the World Bank." He said, "I think that the World Bank is not best suited for most of those countries who are member countries. They're too poor for the World Bank. We really should be getting concessional money for them." He said, "I know how to make a banking decision. We don't need economists for that purpose." Black had already abolished the Economic Department, as you know. I'm sure that Woods had basically the same point of view. He said, "As a banker, I don't feel the need for economists to tell me how to make a bank loan. But when it comes to the question of how to use concessional money, grant money, which countries can get it and for what purposes and how I divide it, that's when I need an economics man. If it weren't for IDA I wouldn't be talking to you." This was very revealing because it was an insight he had, not one that I brought. And it had a lot to do with what I did because a lot of the time I spent in the Bank was in the replenishment of IDA.

**ZIEGLER:** It's interesting because George Woods always struck me as a very hard-nosed sort, I mean a no-nonsense type. He wouldn't advocate something just for mere sentimentality.

**FRIEDMAN:** No, this was his idea, and one of the reasons why Woods was always interested in the external debt problem. He was always concerned about whether or not the Bank should be making bank loans in the first place, on two bases. One was, can the countries afford to service it; and the other was, if they can afford it they can get it from other people. What do they need it from us for? If they're really creditworthy they can go out and borrow it. But the IDA countries are the ones that no one is going to touch but us, so that's where our emphasis should be. Much of what is understandable about Woods and his administration was his preoccupation with IDA. When he went traveling he was more interested in Africa and Asia, in India and Pakistan, the poor countries of the world. Latin America was for him sort of interesting, but these were countries that could take care of themselves. He used to say, "Look, Irving, these fellows need private investment; the only reason why they don't get private investment in Argentina is because they don't want any." He said, "I can get the Ford Motor Company, and I can get U.S. Steel in there, I can get them all in there, in Brazil, if they'd just let them in. They don't have to borrow any money; they can get all the private investment they want, but they don't want it. They want to keep it for themselves, so they go and borrow." He had good relations with Latin America. In fact, one of the things he asked me to work on was developing better relations with Latin America. But, from his point of view, his sympathy and his emotional attachment was to the poorer countries in the Bank, and that's where he spent much more time. I spent much more time in the Bank working on IDA replenishment than on the capital increase.

[End Session 1]

**Session 2**  
**February 6, 1986**  
**Washington, D.C.**

**[Begin Tape 1, Side A]**

**ZIEGLER:** Today is February 6, 1986. My name is Charles Ziegler. I am in the Washington office of Mr. Irving S. Friedman. We will continue The World Bank oral history program interview of Mr. Friedman which was begun last December. Mr. Friedman, taking up from where we left off in December, how would you characterize your relationship both professional and personal with Mr. Woods?

**FRIEDMAN:** Well, I think it's fair to say and accurate to say that they were very, very close, particularly professionally. I say that because although we became very friendly, Woods was, for example, over at my house only once. And I think I was over to his apartment once in five years, so it was not that kind of social relations. I don't count times when I was over at his house because the whole senior council was there, you know, the President's Council was invited for a free dinner, but we were much more--we did socialize quite a bit in our foreign travels together. Then we would have quite a number of opportunities for luncheons together or dinners together, just the two of us, but not in Washington.

But we were very friendly, and I felt that he was a strong supporter of mine and the work in the Bank, and indeed at times to the extent of being embarrassing if people thought of me as being a favorite of the President, and as I probably mentioned earlier, sort of the only person for a number of years who was brought in at high post by Woods. So that gave me a kind of special position in relation both to the staff and the executive directors as well as people in the outside world, which was mostly welcome, but at some times was kind of uncomfortable.

**ZIEGLER:** Mr. Friedman, what were some of the major issues during the Woods presidency and what was your role in them? IDA replenishment, the Pearson Commission, and the establishment of the President's Council would immediately suggest themselves, but I'm sure that there must have been others.

**FRIEDMAN:** Well, I have to be careful here that I don't give an unbalanced view in the sense that a lot of things that happened that I'll talk about are things that I initiated, but that's because I was initiating in my own field. You know, it could very well be that there were a lot of initiatives going on in the field of projects, for example, or in the field of fundraising that I heard about but didn't know about because under Woods there was a deal of effective division of labor. Woods delegated authority. He knew a lot about what was going on. I suspect he didn't delegate as much as Gene Black before him but that by and large people didn't interfere with the work of others. So, for example, I didn't interfere with the lending activities that were under Burke Knapp. I didn't interfere with project work that was under Siem Aldewereld. I surely didn't interfere with the legal department that was under Ronnie [Aron] Broches. I had more to do with Dick [Richard H.] Demuth, because Dick Demuth was kind of in the business of technical assistance in relations to the UNDP [United Nations Development Program], and also Dick was, had been one of the principal innovators

in the Bank from the very beginning, so things that I innovated tended to be of interest to him, and sometimes he agreed with them. Sometimes he didn't. But we had more to do with one another.

**ZIEGLER:** He was an ideas man.

**FRIEDMAN:** Yes, and we were therefore in each other's area so to speak much more. And, for example, it was Dick who introduced me to the UNDP and to the people in the UNDP because he was in charge of it, and yet he would invite me to a lunch in which we would discuss the relationship with the UNDP because it had a lot to do with the economic work. And so that was the one area where there was a good deal of kind of intermingling between the two. But a lot of initiative could have been going on in other areas that I didn't know about. And that's what I want to stress, because when I talk about this, I'm talking about the initiatives I know about and they were in the economic field.

Now, in the economic field, leaving aside for the moment the whole initiative of the formation of the economic staff and the organization of the economic staff, which probably in its own way was the most important thing that I did. But really I think you're addressing yourself to some of the particular assignments that were given to me by the President during that period of time.

**ZIEGLER:** We will, of course, cover the economics . . .

**FRIEDMAN:** Separately I gather. You have a separate section for that.

**ZIEGLER:** Right.

**FRIEDMAN:** I think that's quite right. The--and I think I have mentioned the fact that from the very beginning Woods gave me as my primary assignment the IDA replenish--IDA, work on IDA, and in effect what became the IDA replenishment activity. And I took a very leading role in that. The other leading role was also played by Burke Knapp, so I think Knapp and myself were sort of the two leading people in the thing. He had more of a role when it came to things like organizing the meetings or agreeing with countries where the meetings should take place and who would attend, what might be considered as control of the agenda of the meeting. And he always consulted with me on it, but nevertheless that was kind of his responsibility and I can't remember ever not going along with the decision or ever really feeling that the decision was particularly wrong. And I just sort of went along.

My role in IDA was more, first, was a--initiated the idea of how big IDA should be. I was the one who initiated the idea that we ought to go for a four times increase in size. We ought to go to a-- IDA at that time, all subject to memory correction, was about 250 million dollars, I believe, and I proposed that it go to a billion dollars a year. And it became--my job was to kind of come up with a figure and after that to justify it to the President and after that to defend it with everybody else, whether it was inside the building or with other countries wherever we were. We managed to get a lot of visitors from different governments to come and ask me how I got this and why and so forth. And they were, again as far as I could see, when the President was asked this question, he would direct them to me. Now, whether other people were

also answering the question, I don't know. I wasn't there. But as far as Woods was concerned, he would regard me as being the person who was concerned about the magnitudes of IDA, why we wanted to have such big amounts.

**ZIEGLER:** Did you have any--did it take you a long time to evolve a figure or . . .

**FRIEDMAN:** No, it was a very short time.

**ZIEGLER:** Could I just ask how you . . .

**FRIEDMAN:** Haven't we discussed this?

**ZIEGLER:** No, not . . .

**FRIEDMAN:** Oh, I see. Well, let me tell you very briefly then, because the documentation on this was very sparse. When I came into the Bank, the IDA replenishment was already urgent in the sense that it already was on the front burner. And it had not moved forward largely, I was told, because Mr. Woods had been sick. He had had this heart attack and it had sort of thrown him out, and he was looking for someone to take the economic work. And obviously in his mind whoever did the economic work was going to do this, so there was that inevitable delay of surely it was a few months just in finding someone to head up the work. And I think I talked a little bit about that with, about, Alec Cairncross and myself, you know.

**ZIEGLER:** Yes.

**FRIEDMAN:** So it ended up that I was doing it. It could have been someone else, but I was doing it.

But when I came it was already urgent, because he had already agreed with Secretary [Henry H.] Fowler, Secretary of the Treasury, that he the President of The World Bank would carry on the negotiations for the increase in IDA rather than the Secretary of the Treasury, which was sort of the major decision along those lines, because the formation of IDA had been negotiated by the Secretary of the Treasury not by the President of the Bank. The President of the Bank had participated in it, but he had, and I'm sure that the intellectual input was very great from the Bank, particularly from Dick Demuth, but that the negotiation, the calling the meetings and the pushing ahead was very much the, was done by the Secretary of the Treasury.

Now, therefore, the first issue that I confronted with Woods asking my advice was, you know, he said, "Joe Fowler's asking me to do this, and, you know, I think I ought to do it, you know. What do you think?"

My response was, "Why do you want to carry the can?" This was going to be a very unpopular exercise for the Bank.

And he said, well, you know, he did it because Fowler had made the point that already Fowler was in great difficulties with the Congress on the budget and on the Vietnam War and issues around that and that the President [Lyndon B. Johnson] and Fowler felt that he shouldn't undertake another major international assignment if he could get

George Woods to do it. And Woods said he felt that we ought to do it, and I said, well, you know, obviously I went along with it, "If you're going to do it, I'd be glad to be of help," because that was, it was in that context that he was talking to me that if we undertook to do it then a lot of it was going to fall on me to carry forward. And I was really quite happy to have that opportunity to do it. It sounded like a very interesting assignment.

And then he--so that is how I lead--the first question was how big should we be and that got to--then after than when we began to have the discussions, I also found myself of having the job of relationship with the U.S. Treasury. And that was simply, I think, partly because in all of my history--I had started in the U.S. Treasury with my career and never not had close friends in the Treasury at this period in time. I wouldn't say that's as true today, for example, but this is my generation of colleagues and guys that I had been on the staff with. Indeed, Andy [Andrew M.] Kamarck, who became head of my economics department, was someone I met in the U.S. Treasury. And I knew Secretary Fowler. I knew him before he was the Secretary of the Treasury. And I knew the other senior people in Treasury at that time. And so it was pretty convenient for me, for Woods to ask me to be the liaison with the Treasury.

They also got, had me be liaison with the Senate Foreign Affairs Committee, because at that time [J. William] Fulbright was chairman and Fulbright had been chairman now for a number of years but had insisted that his committee would be in charge of the replenishment of, well, not the replenishment but World Bank matters because he was very enamored of that kind of thing. It was taken out of Finance Committee and put under Fulbright when Fulbright went from chairmanship of Finance to the chairmanship of the Foreign Affairs Committee--Foreign Relations. Now, the reason why I was--again, partly, I guess, because of my background in this field, but also it just happened that Carl Marcy, who had been the director of the staff of the Senate Foreign Relations Committee for ten years was a classmate of mine at Columbia and we had been good friends. So again the personal aspect was very important, because Woods was very pleased to learn that because it meant that I could have informal discussions with the principal link. At that time Fulbright was a real, a very, very important figure in all this and the chairman of the committee handling the Fund and the Bank, handling the World Bank and IDA, was well disposed and not well disposed and was of key importance. There weren't that many other members of the Senate, of the Congress who were that interested in the subject. But he was very interested. This was the days of the Fulbright scholarships and when Fulbright was really playing a leading role in international affairs.

And so I found myself kind of liaising with these two, and soon in connection with both of them, one problem arose that became a kind of specialty of mine. And that was that the U.S. balance of payments was already then in deficit. The idea that the U.S. balance of payments deficit is a recent problem is just naive. It's been a problem for about 30 years, and as you probably know, it has been much more often in deficit than it has been in surplus. And this is another period of time when it's in deficit. And were a lot, in fact, when I was over in the Fund I had done quite a bit of work on the U.S. balance of payments and what might be done to deal with the deficit and the people in the Treasury knew it because some of the proposals I had made had found their way to the Treasury and the Assistant Secretary of Treasury in charge of International Monetary Affairs, a guy name Andy [Andrew N.] Overby, was one of

my closest friends. In the meantime, he's left but then he's succeeded by another very close friend of mine, Gradon Upton. So I was pretty well established in Treasury. And so when the problem arose was that IDA was regarded as a burden on the balance of payments and that, therefore, since IDA funds came out of the budget . . .

**[Interruption]**

**ZIEGLER:** No, that's--I'm interested in the mechanics of the IDA replenishment because, as you say, there isn't very much on it.

**FRIEDMAN:** The documentation is very little.

**ZIEGLER:** If you don't . . .

**FRIEDMAN:** Yes. So I found myself being the person who developed the World Bank position on how we--demonstrating, which was actually true, actually the IDA was not a burden on the balance of payments, that it was true that the Japanese benefited more from IDA than any other country, but that actually our procurement under the IDA could have reasonably be expected to be approximate to what we would be contributing to IDA. But I found that that was a great preoccupation indeed with the individual Senators whom I did not--don't remember any more, being called upon to kind of chat with them about it as well as with the, Carl Marcy on behalf of the Senate Foreign Relations Committee. But most important of all with the Treasury. And I think we--I'm not sure we ever convinced them of that because it remained . . .

**ZIEGLER:** In true Treasury fashion.

**FRIEDMAN:** Yes, in true Treasury fashion once you get concerned about something you're never about to stop being concerned. But still that was the argument and they kind of accepted it because the U.S. did accept in principal the idea that the IDA would be four times.

And a third question that came up was—and there Burke, I think, was just as much involved as I was but probably separately--which is the whole question of getting the IDA activity started. We were delayed for months in getting IDA started. This was a great concern to Woods because when I come into the Bank in 1964 it's already urgent, and yet we go into '65 and we hadn't even started anything serious. Now, what do you mean by starting? Starting was to call a meeting of representatives of the donor countries and start talking about, you know, putting our proposal up for a four-fold increase before them and getting reactions and starting the process of achieving an international agreement. And Burke was clearly from the beginning going to chair those meetings. And the two of us were to be the team plus anyone else we wanted to bring along.

And my job was dealing with Treasury. And the problem there was that it was the Treasury that was holding it up. That's why I got more deeply involved. I am sure that Woods was talking to everybody about this, you know, not just to me. But I got, as I say, involved in it because Fowler got ill at that time, also seemed to be very busy with the Vietnam War and the budget problem, because IDA was a budgetary

problem, but also much more important was the whole budgetary situation. This is 1965 when the Johnson Administration is really getting into trouble on account of the financing of the Vietnam War, whatever they wanted to call it. And so we just got delayed. I went over to speak to him on it, and I'd speak to him and we'd be told, "Very well, sure, Irving, we're going to come up with something soon." But the soon was long delayed.

At the same time the Europeans were getting after Woods, as he told me. Not after me. After him. And that, you see, could have come through Burke, for example. I just don't know. But I dare say it came through the Executive Directors calling on Woods, saying, "Why don't we get started?" At the same time the Europeans were telling us, "But we won't, but when you come here and have our first meeting"--which was going, by this time agreed to be in Paris—"that we won't start, when you come, we want to know what the U.S. position is and we don't want to have a meeting without knowing what the U.S. position is because that's the most important one."

And that's at this time, I think, there was nothing else, IDA was 40 percent World Bank--it was 40 percent USA. Or something, yes, about that. Maybe 42 percent. I forget. But it was very high and it was clearly, it was the U.S. that was expected to take the lead. And here we couldn't have a U.S. position, couldn't get one, so we were caught in the quandary that as far as we were concerned we were perfectly prepared to meet in Paris without a U.S. position, but the European countries said that we want a European, we want an American position. That seemed, after all, fairly reasonable. And so we were trying to get a U.S. position, and finally we did get one. And, but it took a number of months of delay. I think it took nearly into the spring of '65 before we got it started.

And, of course, it established a lot of precedents. One, that the President of the World Bank was the one who took the initiative. The staff came up with a proposal, not a government. The senior person on the staff, because at that time you see we had no senior vice president, so in this case it was a vice president of the Bank would chair the meetings. And fourth, it would be a repeated process. It wouldn't be just one meeting, but we could have a series of meetings looking towards a final agreement that would then be submitted to governments. And that, I think, is essentially the technique that is still used in the government.

**ZIEGLER:** How did you finally come up with a figure of, what, four times the . . .

**FRIEDMAN:** Well, it was a very interesting thing. I never had a chance to write it up, you see. The documentation in this is very poor, partly because I was so busy doing things that I didn't have a chance to write it up. At one point I asked one member of my staff to write something for *Finance and Development*, which I think he did write an article on it based on his, my conversation with him because—actually, it was unfortunate. It wasn't a bad article, but he wasn't someone who was even involved in it. He was just someone that I told about it that I told him it ought to be written up somewhere. Now why wasn't it written . . .

**ZIEGLER:** Do you know who it was?

**FRIEDMAN:** I can't think of it. He later got to work, went to work for us in the field of population. I think he's still there. And now older. He'd be now about 60, I think. Because this is now, you know, this is 20 years ago. Twenty years ago, huh? Yes, then he'd be about 50. He was quite young. I would say no more than 30 at that time. Maybe not even that. An Englishman. And, but I'm sure that it also is contained in the individual memoranda that I wrote to Woods.

And the central argument was this. At that time the whole question of the capital requirements and absorptive capacity of developing countries was under great debate and very controversial and very upsetting to the U.S. Treasury, who felt that the arguments that Raul Prebisch, who at that time was the head of the Economic Commission for Latin America, was sort of the leading person. But they had many other very able people around them and others coming from other centers who were coming up with really, what in those days would have been astronomical figures, and saying this is what the capital requirements and absorptive capacity is. And they were mostly based upon the kind of projects, the kind of projections that were already, econometric projections that were already quite common in the U.S. AID [Agency for International Development] program and elsewhere. In fact, became very common under [Robert S.] McNamara. But I personally did not think much of them at all, because I had been involved in this kind work earlier and was thoroughly devoted to the thought that these projections were a very, very uncertain guide in terms of policy because the models were simplistic, the informational base was poor, the conclusions drawn were exaggerated one way or another and that they were all right to do, but you should really then set them aside and use your own head.

But be that as it may, that was what I was contending with. And Woods was getting this, you know, from other people all around him inside and outside the Bank. And so he asked me to take on this problem. And I did it in a very simple way. It was just inspiration. It's probably never been done again that way. Surely after I left the Bank became completely more projection minded than ever, so that I don't, I suspect it was never done again. But it was done when I was there for that period of time. I asked every member of the Bank's staff who worked with countries to give me their estimate as to what they thought the country could use in the way of development finance assuming no institutional restraints and irrespective of source. But from their economic analysis of the country and their knowledge of the institutions of the country and the policies, what was their judgment that could be used. It seemed to me that this was sort of cutting through a lot of assumptions and going towards a truly kind of census approach of just asking, and it wasn't even in that sense a sampling approach because we did it for every country that was a borrower from the Bank. And we added up.

And I had it reviewed by Andy Kamarck and a few others who were now in my economic group. I had a very fine economic sort of cabinet from the very beginning of people from--I had people like [Paulo] Pereira Lira, who was Brazilian, on my group, and I had someone like [R. M.] Sundrum, who came from Burma and India, on the group. And Andy Kamarck had worked on Africa. So I had in my immediate group of people to review all this, people who themselves knew a lot about the regions. So it wasn't without discussion. And each one of them went out and did the job of talking to the people in the groups. And in every area department we had an economic adviser. And so they were deeply involved in the process. And I must say

they were very cooperative. They were very impressed with this. No one had ever asked them to do this before, but on the other hand, when asked, they were quite cooperative and so was everybody else. You know, of course, the Bank did not have an extensive economic staff to call on.

**ZIEGLER:** Right.

**FRIEDMAN:** So it was really done mostly through the loan officers, so the all purpose people on countries as reviewed by the economic person in charge of that area and as then reviewed again by my own group and myself. And so we came out with a figure of 4 billion. We also came out with a figure of whether we--how much of this in their opinion should be on a grant basis and how much of it could be on a more bank, commercial, market-related interest rate basis. And it came out essentially a 50-50 split. That, because see India and Pakistan are pretty big in this thing, so they kind of swayed the numbers, or influenced the numbers a great deal. So it came up as much as 50 percent should be on a concessional basis, and the total--I'm sorry. The total was 4 billion. And so 50 percent of that 2 billion.

And so I took the view with Woods, just over lunch, that, you know, "Fifty--if you're going to do about half the concessional, I mean, the reasonable, of an official character, that let the foreign aid organizations together do about as much as the IDA, then we can play the lead role in the field of concessional aid," which he wanted to play. "And if we gave half of it, as much as everyone else put together, every time there was a group, the donors discussing what should be done in the country, we would have automatically the lead role and that would, you know," I said, "you know, that means like in the Indian consortium or the consulting groups, we'll automatically be the chairman." And he liked that.

So we came out with a billion, a billion. It was one-half of two billion. Now, you see, that wasn't a very--it didn't take much to describe that. I think I, you know, probably did it in two pages of a memorandum, and it probably represented the, you know, on my part, just a few days work. But the review work was not a few days. I mean, I would say the process lasted over a month whereby we sort of canvassed all the people in the field. And in some cases I remember they cabled out to people in the field who were representing the Bank and checked out what they said. They took it quite seriously. And then that was the figure we used. And then that was why it was a very powerful figure. We never got refuted because I never got involved in this business of having to prove that my projection was right as against anyone else's projection, because I just said, "Look, I'm not looking at any projection. I'm just looking at the Bank's experience and here is my numbers, country by country. Anybody can say this number is silly. Glad to hear it." And they couldn't because actually the people in the Bank were really quite well informed, you know, quite well informed. And so differences from their views were not all that drastic. They surely didn't affect the total numbers, and since I wasn't allocating IDA but just getting a total magnitude for IDA, I didn't have to worry about whether or not someone might have pulled a little bit off, added a little bit more for Haiti or a little less for the Dominican Republic. That was a different kind of exercise. So that's how we got the figures started.

And then with the U.S., we never, we never overcame the problem that they agreed in principle, but from the very beginning argued the budgetary difficulties at the time and also their concern about the balance of payments which became subdued over time but I don't think ever went away. But the budgetary situation remained to plague us right through the exercise. And that's why it was agreed in principle, first in the U.S. position was that we would achieve a billion--that was my suggestion was, when I saw that we had impossible U.S. resistance that, well, why don't we aim to be at a billion dollars by the end of the three or four--three year period, I guess it was. Three or four year period. I forget which it was. And that therefore the increase could be by steps in countries. It would not be--on average you didn't need a billion dollars increase. If you had something like a half a billion dollar increase, you could be achieving a billion dollars by that end of the period. And that became the strategy of the replenishment.

And after that it was a matter of, you know, getting together with countries in which Woods and myself--Woods would undertake to go to visit the governors, the ministers of finance, and on that I would go with him alone. And so we visited Germany, Italy, France, England. More Germany and England than any other. I don't think any others. I don't think we went to France and I don't think--I think it was just those four. And we didn't go to Japan in those days.

**ZIEGLER:** They were still a borrower right up until about that time.

**FRIEDMAN:** That was one of the issues of the Bank at that time was whether Japan could continue to be a borrower, but it surely wasn't continuing--it played a passive role in the IDA replenishment. It was always willing to go along--oh, and the Canadians were the other ones we visited. And they were sort of the principals that we identified that we had to go along. And the difficulties more emanated from the French than anyone else. They were the most reluctant, and the British and the Germans were pretty stubborn about not going along with the whole figure. I think we ended up what, with five billion, \$500 million increase. It was not a billion. I forget. It's all there. We got less than we wanted, but we got a great deal of help from the Canadians and the Dutch, you know, in negotiations.

**ZIEGLER:** You weren't, I suppose you were upset to some extent, but this is more a political question than a question of the figure of the need.

**FRIEDMAN:** That's right. We'd get some questions about the administrative capacity of the Bank. I don't remember that being serious. It was always, the big question was will the U.S. go along and what is the proportionate share. And one of the things that I was doing was--the U.S. was reducing its share a little. And one of the things I had to negotiate principally with the Dutch and Canadians to pick up what the U.S. was reducing.

**ZIEGLER:** These things are still going on?

**FRIEDMAN:** Oh, yes. That's why I say this is so interesting because it isn't without current implications, but on the other hand, I guess if you do it currently, you learn all these things, you learn it all over again for yourself. And we had very close relations with the Canadians and the Dutch on this and to some extent with the Swedes.

Now, see, again I, in the Monetary Fund, had very close relations with the Dutch government and the Swedish government and the Canadian government, because they had been among the countries I had dealt with in the Fund. So, again, I think in this division of labor between Burke and myself I tended to get the external diplomatic functions, because I knew people in these countries. I could talk to them directly literally on the--I literally got the Dutch and the Canadians over the phone to pick up the U.S. shortfall because I could call someone and just ask them. And where Burke didn't because the World Bank never had the kind of external relations with the European countries that we did with donor countries because they hadn't negotiated the first IDA that was done by Black, and when it comes to the first replenishment they knew a lot about Argentina or countries that were borrowers in the Bank, particularly some of the Latin American countries and to some extent the Philippines, for example, but the World Bank at this point is not that big. You know, this is not yet the heyday of the World Bank.

**ZIEGLER:** Under McNamara.

**FRIEDMAN:** It's beginning to get bigger and bigger, but it's--whereas in the Fund we were even smaller financially than the World Bank in terms of operations, but the program I was in charge of had nothing to do, was not related to money. We had our consultations with countries every year whether there was any drawings or not. We had to have a decision every year on the use of, on their exchange rate system and on their restrictions on payments. So I had been dealing with these countries on that, and from time to time, like with the U.K. on money, whereas the World Bank was always confined to fact that they had great relations with the U.S. financial markets because they had been borrowing in financial markets. And they hadn't really even seriously begun to borrow anywhere else except a little bit in Switzerland and, I guess, maybe a little bit in the U.K. But they hadn't yet developed a member relation--and to this day I don't think they have. I don't think the World Bank--as evidenced by the fact that the London office of the World Bank is still just a small thing for visiting firemen going somewhere else because--whereas in the Fund the European work at least until recently, it probably still is, was always the bulk of the work. The heart of the work was Europe and was the convertible currency. Whereas in the Bank it was always the developed, the borrowing countries, and here we were talking to donors. So we were talking to creditor countries.

So the fact that I had had relations with the creditor countries, maybe—I never thought of that until this moment--maybe that had something to do with why Woods asked me to do this in the first place. I don't remember talking to him about it, but it just--I guess everybody knew it because that was very well known what we were doing in the Fund and very well known that I was in charge of it and indeed I was very deeply involved. And so then the negotiations went on and for some time—I forget exactly when--but I guess it must have been by 1966, I guess, before it was actually agreed. And so that became, that was sort of one of the main assignments that I was doing. And then for me very interesting was the opportunities to go with Woods alone to visit some of these countries.

**ZIEGLER:** Another . . .

**FRIEDMAN:** No, go ahead.

**ZIEGLER:** Well, another aspect at least of development work that came up during the period you were in the Bank was what later became the Pearson Commission. I know the final report was published under Mr. McNamara but, of course, you were there during the whole time. Did you have anything directly to do with this?

**FRIEDMAN:** Not very much. I knew about it. There was this--someone sold Woods the idea or gave Woods the idea of a so-called "grand assize," I believe at that time, contemporaneously, that it was Barbara Ward.

**ZIEGLER:** That's what I had heard also.

**FRIEDMAN:** Barbara Ward was a very good friend of Woods. She was a great one for cultivating people in power that could help developing countries. Very, very consciously so. She and I became very good friends, very close friends, and continued to be friends until she died. But I always knew that she had relations with Woods that were quite external to me, you know, that she was a separate source of not only suggestions but even inspiration, because she was really an inspirational type of person. She'd not only convince you intellectually but you always fell in love with Barbara Ward, and after a while you just, you did things because you couldn't let her down. She had that marvelous quality of leadership. And one of her followers was George Woods.

And so I had that feeling at the time that I didn't see anyone in The World Bank that would have pushed this idea. It was my opinion of them that the only one who really would have had that much visions would have been Dick Demuth, and it was sort of an idea of the kind that Dick Demuth might very well have had. But he wasn't in favor at that time. Dick doesn't, is not in favor with Woods. This is not a glorious period for Dick. For some reason Woods would disparage Dick, and the other one he tended to disparaged quite a bit was Burke Knapp but Dick even more. He had a great admiration for Broches, again as expressed in the--a great admiration for Aldewereld, the other Dutchman, a great admiration for [L. Peter] Chatenay, who was the deputy to Aldewereld, later became head of projects work, didn't think much of Knapp, thought Knapp was too devoted to the old Bank, you know, that he wasn't open to change, that Burke . . .

**ZIEGLER:** Club atmosphere?

**FRIEDMAN:** Yes. This business, you know, Burke was sort of, kind of personified the old Bank. And Dick was someone who I don't, never could figure out why, because Woods kind of liked people with ideas. But in some way that was very clear. I mean I think I can say soberly that there were at least a couple of times when I saved this guy's job, because he was--he didn't know that, but he—but Woods would say things that were really very, very--would be very distressing if Dick ever knew it at the time, and I never told him. I haven't told him to this day. And I don't intend to. But that's why I didn't think at the time it was Dick's idea. In fact, I never asked Dick because--as I can remember--because, you know, it was kind of embarrassing. It was the kind of thing you might have expected Dick to have been deeply involved in. And I don't know, maybe Dick was involved in and never told me. I don't know.

Now, the interesting thing was that when Woods . . .

**[End Tape 1, Side A]**

**[Begin Tape 1, Side B]**

**FRIEDMAN:** . . . because Bill [William D. Clark] was not yet in the Bank.

**ZIEGLER:** Yes, I'm hazy because if I remember in his transcript, this was a couple of years ago, where the connection was to Barbara Ward very definitely.

**FRIEDMAN:** Yes. And that's quite possible, because it's a Bill Clark type of idea. You know it's the kind of idea that Bill, just like Dick Demuth, except that I think Bill unlike Dick would have thought more broadly. Dick's ideas were always how do you expand the World Bank? Let's get a multilateral guarantee system. Let's make it a center for settling of disputes. Let's have IDA. You know. Whereas Bill Clark, who was interested in the Third World and developing countries was not, well, I know, because I got to know Bill very well. Actually, you see, I first meet Bill when I'm in the Monetary Fund dealing with the U.K., so by the time Bill gets to the Bank I've known him for 10 or 15 years. In fact, I knew him longer than anybody in the Bank, because Barbara Ward never was in the Bank, so to speak. And I thought quite highly of Bill.

And so, but when Woods got an appointment--I mean asked for and got an appointment with [Lester B.] Pearson, who was at that time Prime Minister--to come up and chat with him about it and his top, those people in the cabinet that he wanted to have at lunch, I was the only one that went with him, which was to me was kind of, I took as a sign at the time that nobody else in the Bank was involved, because if they were Woods would have asked them to go. But they weren't involved, and he wouldn't ask Barbara Ward to go because she was not on his team, so to speak, and obviously I just I guess assumed at the time that Barbara had probably done her own private chatting with Mike Pearson because she had known him from before, and she was the kind of person who chatted with people like Johnson and with heads of state. She had, as I say, she was a remarkable woman with her advocacy of Third World countries. I don't think there's been anybody who has really rivaled Barbara Ward in her sheer ability to advocate in top political circles rather than in just purely intellectual circles.

And so we went up that day to Pearson. I was at lunch with him, but I was not at the meeting with Woods that afternoon. He told me he was going to make this proposal for a "grand assize" and was going to ask Mike Pearson to be the head of it. And, you know, just sort of chatted, what did I think of it? I thought it was a great idea but it was already pretty well cooked by that time. And he had--and I went off and met with Maurice Strong, who, it was his first day in office as the--for the first time Canada had set up an aid agency and Maurice Strong was the first head of it and came on board the day of that luncheon. And I was asked by Woods, at Pearson's suggestion that that Woods ought--that we might meet with Maurice Strong. Woods said, "You know, Mike, I got something"--because they had known each other for a long time--"I got something I'd like to talk to you about privately." That proved to be the Pearson thing.

And he said, “Well, why doesn't Irving go off and talk to”—I was the only other one there for the Bank—“go off and talk to your new, this fellow Maurice Strong.”

And which I did. And that set up an intimate friendship between Maurice Strong and myself which has lasted to this day. And he, that was one of the reasons he became the great help in all these replenishment exercise. I could always call on Maurice Strong to deliver Canada, you see. And so that was about all I knew, in the sense that after that it was not my affair. I didn't get involved.

**ZIEGLER:** [inaudible]

**FRIEDMAN:** Yes, I didn't get involved in the selection of the personnel of the Pearson, of the thing. In fact, I thought some of the personnel that was selected was pretty poor stuff, but it was soon taken over, well, I forget exactly what year this is, but it's not long after that that McNamara came in and he kind of took it over and he just, you know, he got people on the thing that he thought he'd like to have. And it became a different exercise which is sort of to this day, in a way--you'll never get rid of it. I mean the Pearson Commission becomes the [Willy] Brandt Commission becomes the Committee of 30. It just goes on and on as major sources of money. Each one has found that after one is exhausted you pick up someone else. For that I really didn't have much to do with it.

Personally I didn't have much use for it because I really felt that the—well, we never did have in this field at that time--we still haven't--is a truly nonpolitical review. We've always had reviews that are either dominated by the government or dominated by the World Bank where the President of the World Bank, you know, sort of does what he can to use it as a vehicle for promotion of the Bank. Or the anti-World Bank people, like in the New International Economic Order who don't like the World Bank, they set up a so-called impartial commissions that are just designed to get the World Bank. Or political groups get up, there like on the seventh, and therefore their whole role is to make sure that nothing happens that they can't afford, that is, it's all kept modest and kept something that they can ascribe to.

So when people to talk to me about new Bretton Woods or the Grand Assize, I'm really skeptical about the whole thing, because I don't think we've ever had the equivalent of the sort of green light that people who worked with during the war was given about the post-war period to see what they can think through and come up with and propose as experts and technicians at the same time with the blessing of government so it wasn't just an academic exercise but that extraordinary combination of, both in technique and in the environment that actually encouraged that and made that possible was, of course, World War II which is not something we look forward to repeating in order to have another Bretton Woods, but, so I say that because I ever since then have kind of kept a little bit aloof from those things. I have not ever--I've been pretty active and involved in most things in the post-war period, but not in the Brandt, not in this commission nor even in the Brandt Commission.

**ZIEGLER:** So in a sense, because of the atmosphere behind the original Bretton Woods conference, it's likely to remain unique. The combination of circumstance is

such that they were able to produce a good product the governments to ascribe to and it's unlikely, I suppose . . .

**FRIEDMAN:** I think it's, you know, it's pretty unlikely but it's always possible. I kind of, you know, I kind of think--that's a very interesting thing and I think quite important for the Bank. There's a lot of time is wasted by people and energy who romanticize this thing. The Bretton Woods, rather the initiative on the part of the U.S. Treasury people, particularly this fellow Harry White, but he was only reflecting what a lot of people were thinking, and he had the genius to put it all together and formulate it. But it came out of a conviction that the international economic system had collapsed and that was a major cause of the rise of Nazism which was at that time--and Japanese militarism--and those things were identified, 99 percent of Americans were convinced, whether Republicans or Democrats, that that's why we had a war. That if it wasn't for those two countries some peaceful solution would have been found. In a way the cold war hadn't started. I mean, the Russians were not regarded with that much fear by the Americans. They weren't the major power. They were just, they were someone who would fight the Nazis, but you know they weren't our, you know--the great powers of that time were Germany, England, France, Japan, and we were on very good terms with the French and the British. And so our enemy was the Germans and they were fighting a war. And the people involved in Bretton Woods discussions and preparations were all involved in the war effort, too. I never got to Bretton Woods, for example. I worked on it for three years, never got there because at the very time Bretton Woods was going on it was thought that it was more important that I go out to India and China and to Saudi Arabia because we were having troubles in North Africa.

**ZIEGLER:** Do you regret having missed it or . . .

**FRIEDMAN:** Yes, in a way. Sure. Because I worked on it for two years before and the year afterwards, two years afterward. And I'm not listed as a Bretton Woods father, because I wasn't there, you see.

**ZIEGLER:** Were you at Savannah at all?

**FRIEDMAN:** Yes. Yes, I got right back on the stuff, but the point is that this initial stuff I was not--I wasn't there then. All I'm saying is that that combination of--and here you had guys like White and others, Eddie [Edward M.] Bernstein, who were quite respected in the U.S. government. Not respected because they're academics or something like that. They are respected because they're good Treasury officials and they do their job, you know, very disciplined guys. And at the same time they are very fine technicians. And the political environment is, "Gee, we've got to keep this war from, we can't ever have another war like this, so let's think about, so what gets created?" It gets created the FAO [Food and Agriculture Organization], the WHO [World Health Organization], the United Nations, Bretton Woods. It wasn't an isolated event. It was a--and indeed some of the things that were created like FAO and WHO as well as Bretton Woods have existed to this day, and yet nothing ever happens afterwards.

We didn't--the State Department did not have the imagination or the drive to put through the ITO, the International Trade Organization. They postponed it and

because of that it never came into existence. Because they didn't really quite appreciate as well as guy like White did and some of the other people appreciated it, like Dean Acheson, that you know, "Boy, we can get things done now we'll never get done again in our lifetime." And they were proved to be absolutely right. They had that vision, and UNRRA was another example that was formed at that time.

And I was very lucky. I was involved in all of them. And that was because we had a small staff, and if you were good at this sort of thing, you were called upon in one way or another to be helpful. But that combination of events I don't think is likely to recur but we might have another combination of events that would also add up to a new, the world is to have a new look. But the new look—if you look at the Treasury it is something very hard to understand.

We had a new look. I was one of the two people in charge of the quota formulas, in deciding how much each, how big it should be, the Fund. And the answer was very simple. You know, Harry White, said, "Look it, we can't go to Congress for more than giving us the Exchange Equalization Fund. That's 2 billion dollars, 2.2 billion. We can't wipe out the U.S. Exchange Equalization Fund. No one in the U.S. Treasury is going to agree to that, including the Secretary. So let's leave 200 million, because that means that the Exchange Equalization Fund will continue to be self financing and doesn't have to go to Congress for its budget." Which was a big thing, because we were all on—I was in the Office of the Secretary of the Treasury, and we were all being paid from the U.S. Exchange Equalization Fund and therefore we were in the budget but we didn't have to get budgetary funds to fund it. We were line people, but we were financed by an outside source and—well, a U.S. government source that wasn't part of the regular revenues. So we, White just, it probably took him, you know, half an hour, maybe not that much, to decide that 2 billion is all we can do, but then the question is, well, how big should the United States be of the whole. And White said, "Well, I guess we'll be about 25 percent." So that made the Fund 8 billion. That was all the economics that went into it.

Now, people go back and, you see, they can't do things like that any more. You've got to have tons of studies. Now, why was that possible? Well, White was a brilliant economist. You know, people—there's no question here the guy not knowing economics and not knowing—in his own mind he knew damned well, had a very good idea as to whether that figure, 8 billion, would make sense, could it be useful to achieve the objectives of his proposal. And obviously his feeling was, "Well, we can get started." And he had his lawyers write into the proposal that every five years we'll have a review of the size and maybe we'll make it bigger. He never disagreed with Keynes' idea that really what you needed was a Fund of unlimited size. His point was—and he and Keynes always got together on this—was, "Look, you know, Maynard, how can you do this? I can't do this. The biggest one I can get is 8 billion. That's the biggest one I can get. You know, you can go ahead and—because you've the Chancellor of the Exchequer behind you. You don't have to put up any money. All the money that is going to come is from the Americans. So you suggest unlimited amounts and I can only suggest what I think we can get." So between them, well, so Wood's—I mean, White's views just prevailed in the end.

Well, that kind of trust in academics, support on the political level with Roosevelt very open minded to anything that would hopefully not have a repetition of the war,

lending his support to Dumbarton Oaks, to San Francisco, all the conferences, giving his blessing in all cases as an individual, that was that combination. Now, other combinations could give you a similar view, but I despair of their every getting it the way it's being advocated today with this high shrill partisanship, because the people at Bretton Woods, the one thing about it is there was no particular partisanship. The partisanship was a universal one: let's not have a war again. But there was no great commitment to stable exchange rates, unstable exchange rates, floating rates. All that kind of stuff which has now become nearly shibboleths to people, they didn't--why did they have par values? Because after ten years of floating rates people were fed up with floating, with fluctuating rates.

John Williams, who was a great advocate of floating rates, was one of the principal advisers. That didn't mean he didn't break off or anything just, "You know, sure, Harry." I mean, this was all done on a Harry-John basis, you know. "Oh, to hell with it. Let's agree to this, and if it doesn't work, we'll do something else." Because you've got people here who are involved in practical government. They're running, they're helping to run a government during war. They know what it means to make compromises. You know, they got--I was writing weekly letters for the Secretary of the Treasury, you know, memoranda on our lend-lease operations with Russia and England. Well, anyone who's--they can come along saying, "Those damned Russians are making us carry things that can't possibly help in the war. We're losing ships in Murmansk." The poor President, he's deciding that. The officials are talking about that. I'm not going to get excited about floating rates versus stable rates. You know, everything has a perspective of that you realize what you're talking about is a triviality, because in those days we weren't quite, we weren't at all certain we were going to win the war.

And so this is a, as I say--but I don't despair of their ever getting around to doing it again, but I don't think that it comes out of partisanship. It has to come out--in my opinion--out of a profound conviction that the world is awry and that we don't really care how it is solved so long as it's solved. In other words, what really matters is can we make the world a better place. And you don't enter with any particular, you don't give a damn whether my particular view of it wins or not wins, there's no winner here. The loser is the world. And we're trying to change it. And that therefore everyone has got an idea, fine, but every idea has got to be tested by whether or not it's practical. Will it get government support? If it doesn't get government support, let's not waste any time on it.

**ZIEGLER:** I'm going to digress a little bit because I . . .

**FRIEDMAN:** I'm sorry. I didn't mean to get . . .

**ZIEGLER:** That's quite all right, that's very interesting because I hadn't realized that you'd been in Savannah. Bretton Woods, of course, is a lot more famous, and Savannah is fairly well documented, as far as I know. But I'd be interested in your views as to the character, more like the atmosphere of Savannah. For instance, I do know that [Fred M.] Vinson on the American side and Keynes was on the British side and did not hit it off particularly well. And also that the—it was considerable dispute from the British on (A) the location of the Bank and (B) the role of the Executive Directors and the amount that . . .

**FRIEDMAN:** I have nothing to add on that, really. My role by this time--when I get back I'm doing the staff work. I was in charge of the staff work for the National Advisory Council, which was set up under the Bretton Woods Act. That's how I get involved, and so I'm--Bretton Woods, Savannah and, let's say, the first Governor's Conference of the Fund when it got started. I really didn't—I don't have any . . .

**ZIEGLER:** Were you actually there, you know, in the meeting itself at Savannah?

**FRIEDMAN:** Well, I was there as a technician, as part of the staff, but the inner circle discussions that were going on that I heard about--the only one that I remember hearing about and getting sort of excited about was that the British at that time felt that there shouldn't be a staff for the Fund, that the Fund should run automatically and didn't need a staff. You see, I got involved in that because we were having a counterpart discussion in the U.S. government as we were getting ready for the formation of these institutions, if they have a staff. We were having that discussion, and so there's a memory of that. And the memory I have of it is that the British felt that the Fund ought to run automatically and that all you really needed was a kind of central accounting group that would be able to receive cables requesting Fund exchange and consummating the purchase. They had an equivalent thing in the Bank of England. And that White and the Americans, we all agreed on that. We all felt that that was something we kicked around more that if this institution was going to be important, it had to be really an outstanding group, outstanding in its technical competency and professionalism.

And indeed the Executive Directors of the Fund--I don't remember whether this was Savannah or not, but to my mind I think it was all one thing--but the Executive Directors of the Fund ought to be leading technicians from their country, that they were not to be representatives of countries. They were to be--you've probably heard this from others--they were to be officers of the Fund, and they were going to be paid by the Fund. And the countries would send—see, this was sort of probably unrealistically projecting into the future the experience in the war, because during the war the British had sent Keynes, Dennis Robertson, a guy named [Frederick] Phillips who was quite famous in his own day, then a fellow named [David] Waley who was quite famous. These are all tremendous people, and yet they were there negotiating. They were there doing this thing. And I think, you know, White's vision was that the Executive Directors of the Fund would be that kind of group and that Lord Keynes would sit there for England and--he wasn't all that modest--he would sit for the United States or he might even be Managing Director presiding over this august body. And then you'd have the--and there was this fellow [Hubert J. N.] Ansiaux, who was one of the leading central bankers in the world at that time. He was governor of the central bank, was the deputy governor, I forget his exact title, of the Bank of Belgium. He would be there and, of course, [Pierre] Mendes-France would be there from France. And Lou [Louis] Rasminsky, as he was, was there from Canada. Lou would have been an example, although he disagreed with Lou about most everything, that nevertheless he would be, his example of the kind of person you're talking about: greatly respected in his country; if he agreed to something, the chances are the government would ratify what he agreed and would delegate a lot of day to day authority to this group. You know, the Executive Board of the Fund is conceived of as this sort of thing, continuous session, full time people, really Executive Directors.

It doesn't take long before they become representatives of the governments, and governments determine their quality and their quality becomes very lean as a result. But those were the kind of things I remember from that period of time.

But I had a more of a, when I--I never thought about this before, but now I think I understand what happened. Before I went out, before Bretton Woods, just a few of us were working on it. By the time I get back from Bretton Woods, from the Far East, China, India, that sort of thing, which is beginning of 1945, masses of people are working. You know, the Bretton Woods has brought into the working on it many, many more people. And no one, in effect, has the same dominating, I don't even think probably history would show that White ever had the same dominating position after Bretton Woods as he had until then, because that was the great climax institution but even at Bretton Woods I think the U.S. delegation was, I think, about 40 people. And we had done all this work, it was done with half a dozen people before that. And then it just broadens out. And I remember when I got back the work I did on the Treasury was, let's see, yes, it was something to do with quotas. I became the expert on quotas. And we had the first meeting. We had committees of the governors. I was the technical staff for the size of the quotas of countries, relative size of quotas and stuff like that. That's what I mean by being more of a technician and not as a [inaudible] policy, as it were.

As I say, there was just many more people involved in this thing and guys like Vinson, you know, I didn't know. I never met the guy until after I got back. There was new group of people. Now, as I stayed until I got to know Vinson and stuff like that, but I got to know him through my NAC work, because I would be preparing technical papers for the meetings he would chair so at some point whether I would appear and take notes or deliver some papers or some other highfalutin' duties that go with being a senior Treasury official. Maybe sweeping the floors or anything they ask you to do. I'm sorry to get off. Let's get back to your . . .

**ZIEGLER:** Another thing I believe you were involved with is the establishment of President's Council . . .

**FRIEDMAN:** Yes.

**ZIEGLER:** As I recall it was established under George Woods. Do you have any insights to offer as to how he thought about it and what finally came of it all?

**FRIEDMAN:** Well, I'll give you my version of it, because again it's the only version I have, and again much of what happened with Woods' administration was not the result of formal documentation. Later when I went up to First Boston for five years, my most recent, my fairly recent career, I got to understand it's more the way that an investment bank operates. It doesn't operate on a base of studies. It operates on the basis of individuals, and individuals get together and they decide something and then somebody executes it. But you don't spend much time writing memoranda but you write business contracts when it's all said and done. You're writing contracts either with your client or you're writing contracts on behalf of your client like a merger and acquisition or a prospectus for a bond issue. So there's a lot of writing going on, but it's not this . . .

**ZIEGLER:** Formulation?

**FRIEDMAN:** Yes, which in government is so important. The governments are in a way much more deliberate than the private sector is about any policy decision that they make. So this is kind of, well, I say this because I'm not seeing memoranda on this thing. I'm talking to George Woods and that's what I recollect. And whether there are memoranda on that I don't know. There may be. I just don't know.

But the origin, as I see it, was--when I was in the Monetary Fund I was the senior department director. What the hell did that mean? That meant that the six or seven years I had not gotten promoted because as the department director I had, by that time I had been department director for nearly 14 years, which was, you see, that was the senior grade in the Fund under the political grade of managing director and deputy managing director which were appointed by governments, but they in turn appointed the senior staff which were department directors. They were sort of the equivalent to vice presidents in the World Bank. The World Bank doesn't have a senior vice president, but it had the equivalent of it when Garner was the--and then the Inter-American Development Bank, which was our other prototype, similar institution, did have an executive vice president. But obviously Black had not felt that anybody was going to be his successor to Garner, and he hadn't appointed anyone, and Woods when he comes in hasn't appointed anyone. But when I'm being approached by Woods there were only two vice presidents in the World Bank: Burke Knapp and Geoffrey Wilson. No one else is a vice president. No one else has the rank of vice president. Marty [Martin M.] Rosen--was it Marty Rosen? Yeah, Marty Rosen was out there maybe even with the title of executive vice president for IFC [International Finance Corporation].

**ZIEGLER:** There was a separate title for IFC.

**FRIEDMAN:** Yes, with a separate title for IFC but not at the Bank, and IFC is pretty small stuff at this time. When it came to hiring me, I had been stopped from further promotion by two things. One was we had a rule in the Fund that from the very first day that no staff person could get paid as much as, or more than, I'm not sure, than the executive director and, secondly, that we had no other title above that except the Deputy Managing Director and the Managing Director who were on 5-year contracts. The difference being that we were permanent tenure, and that was considered sort of a quid pro quo, that we were the senior civil servants in the Fund and these people were the ministerial level. And that, you know, that worked fine. As I say, I--but I mention this point about having gone for a long time without a promotion merely as something which my being open to suggestion, because I had been, as I say, I had been at the top of the grade of the Fund for a long time, for many years. And in the World Bank they had established the principle that a vice president could get paid more than an Executive Director.

So when I was approached for this job and spoke to Schweitzer about it, the Managing Director of the Fund, who was very strongly advising me not to take the job, didn't think I ought to. And when I said, you know, I think I'd like to do it and so forth, obviously he didn't stop me from taking the job. He said, "The one thing I'm going to insist upon is that you must be a vice president. I'm not going to have to explain to the world why you, who have been the senior person in the Fund for all

these years, is leaving to go to the World Bank. At least I can tell them you got promoted. You got to be, you overcame this handicap. You got into a situation where your salary at least could be improved." You know, he didn't, wouldn't regard it as a promotion in terms of work or responsibility but a promotion in terms of plain income.

So I carried that back to Woods. Woods said, "Absolutely. He's completely right." He said, "You'll be a vice president. That's what I had in mind."

So I said, "Fine." Well, then he called me up one day. In fact, I was in Connecticut at my mother-in-law's home, her summer place out in Connecticut. That's what I mean it was a very unusual circumstance.

Woods calls up very troubled. He said, "I'm running into problems about calling you a vice president," he said, "because," he said, "Siem Aldewereld has raised the issue that since he's been in the Bank since the Bretton Woods days on there are no Dutchman. Now we're going to have two Americans vice president and one Englishman. He thinks he ought to be the vice president if there's a third one, and that would be more [inaudible] to keep the peace or whatever the word he used. "So," he said, "I got a real problem. Think about it."

So I thought about it and called him back, I think the next day or the same day, and came up with the idea, "Well, George, why don't you call me The Economic Adviser to the President? But it's got to be The Economic Adviser, because there are already are economic advisers in that Bank and they are below the rank of a department director. But if you call me The Economic Adviser to the President with the rank of vice president, it's all right with me."

"That's great," he said. "That's fine," he said. He said, "That'll solve another problem." He said, "I'm sure that Ronnie Broches will not let Aldewereld get ahead of him." That proved to be absolutely right. So he said, "I can call him General Counsel with the rank of vice president." And later followed very soon after that Dick Demuth raised the same question, and all of these fellows had served the Bank very well and had served it for a long time. But this damned newcomer, here's this guy comes in who they knew well. I had a lot of credentials, but the fact is I hadn't been in the Bank from its first day. The only place I could claim that was true in the Monetary Fund, and I was very sympathetic to them because I knew that's exactly the way I would have felt if anybody had come into the World Bank, into the Monetary Fund, from the outside.

And so Woods said to me then, he said, "I've got another idea." He said, "I'm going to take all you six fellows and you're going to be my council and I'll be the Chairman. What do you think of that?" I said, "It's fine with me." I said, "I think that's a good idea." He said, "I've got a cabinet. You're all my cabinet." He said, "You're my counsellors." He said, "You're all the same rank," because he was very eager to establish the notion that we were all equal rank. He wasn't yet ready to appoint Burke Knapp or anyone else his senior vice president. In fact, that doesn't come until years later. He said, "You're all the same rank, and I'm the President." he said, "so we'll meet every day and we'll, you know, like a cabinet." He was very enamored with the idea that he was going to be President of a Cabinet. And that's how it got started.

Now, that's my version of it. Whether someone else on the outside inspired him with it, I just don't know.

**ZIEGLER:** Did it seem to work well in practice?

**FRIEDMAN:** Yes, well, it was a very informal thing, particularly compared to what McNamara when he got to be--it was a very informal thing. He would just go around the table and ask people what they would like to report, you know, presumably anything that was sort of current that they felt they'd like to have the views on it. And it was a way of--that's one of the reasons why I have some sense of what went on in the Bank otherwise. But there was no formal requirement. I wasn't told that I had to report on one thing. If you didn't report and something happened, now and then something would happen and, you know, someone would complain and say, "Gee, you know, why didn't you tell us that at the President's Council meeting?" when it was something of more general interest.

So I remember, for example, reporting a number of times on how the IDA replenishment was going, and I remember reporting on this whole question of the balance of payments that we talked about, talked a little bit about supplementary finance with some of the work done on that. I remember talking about that. But I wouldn't discuss with them the organization of the economics department or the economic work or, you know, that would be--I might discuss it with Burke separately, you know, with other members of the Council, but it wasn't a Council thing. And Woods would come in with things. I mean, he would come in and say, "Well, you know, Dick here thinks we ought to have more consultants. What do you fellows think?" And we would talk about it. It was quite informal. I don't think any record was kept on it. I don't remember whether a record was kept. I don't remember any records of it. Again this is like investment banking. You don't keep records of confidential meetings because once you make a record it's no longer confidential.

**ZIEGLER:** It's like in a bank.

**FRIEDMAN:** Yes, so you know it's, you just, it's just sort of a group of gentlemen sitting around there and managers making decisions, and I think it worked reasonably well. I used to have trouble getting there by 9:30. That was my problem. I never could get up early. But it didn't take that long; I don't think we spent more than probably an hour. I think we were always done by 11 o'clock. It wasn't one of these long prolonged things. We didn't have to prepare for it unless you wanted to tell someone something, tell the group something, so it wasn't burdensome in terms of it was not sort of a bureaucratic layer that was introduced to the Bank. It was like getting together for coffee in the mornings and just sort of keep each other informed. And I think that it worked pretty well.

And it did have the effect that Broches and Demuth and Friedman felt that they were equivalent in rank, anybody called a vice president. That was really what had motivated the thing, the immediate motivation of it, and that was successful. I mean it got a little bit differentiated because then when Woods would go away somewhere, be away, he would ask Burke to chair the meetings. And out of that grew a kind of presumption more and more that Burke was kind of senior to the other vice presidents.

And then I remember once in a staff meeting--because all along he continued something that Black had started, I believe; it was there when I came--of a meeting of the department, heads of departments which is a much larger group and meets once a month, I guess it was. I remember once his saying to the staff, he said, you know, he said, "All of you fellows here are my generals." And he said, "You are a one star general. The other members of the President's Council are two stars, except Burke, and he's got three stars. And I got four stars." Now, that's not a very, very detailed administrative management structure, but it worked.

**ZIEGLER:** The Hay Associates should have . . .

**FRIEDMAN:** Exactly. Yeah, the ones that are destroying the Fund and the Bank. But I first met them when I came to Citibank. They had just done a job on Citibank

**ZIEGLER:** Of course, the next person who was President of the Bank and under who . . .

**FRIEDMAN:** Yeah, well, when you talk about special jobs, this is, we haven't talked about those yet.

**ZIEGLER:** Okay. Fine.

**FRIEDMAN:** It depends on how you want to do it.

**ZIEGLER:** Well, what I did have was . . .

**FRIEDMAN:** Why don't we talk about supplementary finance, for example? The [David] Horowitz proposal and UNCTAD [United Nations Conference on Trade and Development].

**ZIEGLER:** I had a gentleman coming yesterday, a Mr. Ryan. He was from New York. I can't remember where he was coming, which unit, but he was an accountant with the Horowitz. He said he was going to the White House. He was going to be in Washington and . . .

**FRIEDMAN:** Yes, I see, yes. That was a very interesting period. You see, UNCTAD is in existence.

**ZIEGLER:** There was a special study done for UNCTAD . . .

**FRIEDMAN:** And the UNCTAD conference had just passed resolutions on two subjects. One was what we called supplementary finance and the other was the Horowitz proposal. And they became two of more immediate assignments when I was at the Bank. And one of the more interesting things about it in retrospect was that, although the . . .

**[End Tape 1, Side B]**  
**[Start Tape 2, Side A]**

**FRIEDMAN:** . . . hard nosed banker. Just really ridiculous. He just didn't have--you know, his style was very different from, we'll say, Bob, but he welcomed Bob McNamara because he thinks Bob is going to be really devoted to helping the developing countries.

**ZIEGLER:** As, indeed, it turned out.

**FRIEDMAN:** Yeah, but, you know, that was his criteria.

I think he enjoyed me because he felt in me that I was a strange animal. I came from this monetary world where everybody disparaged the developing countries or development effort, and yet I seemed to be very enthusiastic and very committed to helping developing countries. And he himself was very, very, very devoted to try and help the developing countries.

And at this point UNCTAD is sort of in its heyday. It never proves to be very effective, but still it's able to, you know, people to have conferences and senior people turn up and ministers turn up for the conference. And they had passed these two resolutions. And the two resolutions which were really worth talking about a lot were the supplementary finance one and the Horowitz proposal. Now, I'm sure the Horowitz proposal is coming back, and I think supplementary finance will be, too, because they both dealt with subjects that still have not been dealt with. They have remained problems. And now with my work in the African Development Bank we are also resuscitating the Horowitz proposal, and I'm pointing out to them that the proposals for the interest subsidization is exactly the one that was made at UNCTAD 20 years ago and that similarly on supplementary finance.

What do you do about the drastic change, drastic decline in export earnings which led to the debt crisis was--if we had, if McNamara had not shot down the supplementary finance, I'm thoroughly convinced we would not have had the world debt crisis. That was designed to prevent it, and Woods saw that, but Woods—because, I think, because he was a banker--was much more sensitive to the debt crisis in practical terms and doing something about it. Whereas with Bob what I did was to launch a huge study. We had a huge study, you know, filled a whole carton, the size of a carton full when it was all through, but we didn't do anything about it. And the supplementary finance was a direct attack on what later became known as the debt problem. And that's where I'd like--I'd be very happy to talk more about. I'm tired. Can we--it's not 5 yet. I'd thought we'd go on until 5 but . . .

**ZIEGLER:** No, that's quite alright. No, in fact . . .

[End of Tape 2, Side A]

[End Session 2]

**Session 3**  
**February 28, 1986**  
**Washington, D.C.**

**[Begin Tape 1, Side A]**

**ZIEGLER:** Today is February 28, 1986. My name is Charles Ziegler, and I'm in the Washington, D.C. office of Mr. Irving S. Friedman where we will continue with Mr. Friedman's World Bank oral history program interview. In 1964 the United Nations Conference on Trade and Development adopted a resolution requesting the Bank to study the feasibility of a scheme which would offset or eliminate the effects of marked unforeseen adverse movements in the export receipts developing countries. You, Mr. Friedman, were deeply involved in preparing this study. Could you recount briefly the origins of this study and how the Bank got involved?

**FRIEDMAN:** Well, the sort of the original origin, if I may be redundant, really kind of preceded me in the sense that when I got to the Bank there was already--the UNCTAD resolution has been passed. But as it was reported to me by those who had been present at the conference, including a fellow named Wright who was the author of the resolution and this principal representative at the UNCTAD—he was a member of the British delegation, came to call on me to explain the background, as well as others--it had been introduced by the U.K. because the--it was sort of the British initiative at UNCTAD. This was a period of time when the British were beginning to withdraw as a leading proponent of foreign aid because of their own budgetary situation, and yet at the same time they were trying to play some positive role at the conference. And so for reasons of their own, when their chancellor, I guess--I forget his name now. I think it was Howell, but I've forgotten . . .

**ZIEGLER:** [Dennis] Healy, perhaps?

**FRIEDMAN:** I just don't remember. It might have been Healy because he was obviously at that period of time. But when their chancellor came--because that was, every delegation had their head of delegation, usually minister of finance come at some point--they prepared something for him to be the U.K. centerpiece of that conference. And the centerpiece which was prepared was the supplementary finance proposal. And at the same time the U.K. was quite well disposed towards the World Bank and IDA. And so the two things got married because this was a proposal that was not only sort of help for developing countries, but it was also a proposal for, in effect, expanding the role of the World Bank Group. And that was the way it was explained to me. It was also explained that it had the strong support of the U.K. and some other governments, many of the developing countries, but that . . .

**ZIEGLER:** I believe Sweden was the other basic proponent because I see in the files, it always says the U.K.-Swedish proposal.

**FRIEDMAN:** I see, yeah, could be. Yeah, because it's really fitted in with my experience that they were very strong, in fact, a man named Clarkenberg [phonetic] was a very, very strong supporter of this. And the proposal was passed unanimously, but as it was explained by Wright and others, it really had the very lukewarm support of the French who were--who felt that this was a counterproposal to their support of

international commodity agreements. And in fact they were all in favor of some forms of price fixation of commodity agreements, and the British had always been very skeptical of that, the Americans had been opposed. So that was another origin of the resolution, as I understood it, was the fact that they didn't want the UNCTAD to come out and endorse commodities, international commodity agreements. There was something said about commodity agreements, but it was sort of soft pedaled. And the head of UNCTAD was Raul Prebisch, who was known as a strong supporter of commodities. So in that milieu, too, this was a proposal that was supposed to help developing countries, be a counterproposal for commodity agreements, help the World Bank Group, an answer to the French who were proponents of the commodity stabilization agreements, and it sort of all came together. And there might have been other, other factors which escape me at the moment.

But when it came to me, as to something to implement, I kind of made up my mind pretty quickly that we were going to be for the World Bank, for the supplementary finance, and not spend too much of our time on the Horowitz proposal, on the grounds that the Horowitz proposal was prima facie an attractive idea, but that it wasn't going to get any support. There wasn't any, you know, it was sort of doomed to be talked about but not really to become anything. But in all seriousness we did mount a mission to various countries to get their reaction to it. And if I remember correctly, Shirley Boskey, who was along, prepared the report, as I said, and I do hope that I'll be able to refresh my memory on that.

But on the supplementary finance, we took that seriously from the very beginning because I personally had also been someone who was very skeptical of commodity agreements, and so I found myself quite sympathetic with the idea of an alternative approach. The other thing is that I had been very actively involved in the Fund in its own compensatory financing arrangements and the compensatory financing arrangement was very similar in its purposes and objectives as the so-called supplementary finance proposal, as I understood it. And I had been quite sympathetic to the idea of doing something about, in effect, in that sense, of the commodity problems of developing countries and their loss of foreign exchange income or the volatility, uncertainty, et cetera. And so I felt personally quite sympathetic.

The other was, I was looking at that time at ways and means of expanding the role of the World Bank Group and it seemed to me that this was clearly offering us an opportunity to do something that was closely related to what I was trying to accomplish in the economic work, which was that the Bank should play a role on the macroeconomic policy level because the Bank didn't play such a role. The Bank had done country surveys in great depth by very large missions headed by outsiders and then edited by people within the Bank staff, but--and the Fund had expressed views about macroeconomic policies, but usually they ran in sort of separate channels. Everybody knew the Fund had a, didn't like the Brazilian government, for example, I mean the Bank didn't like the Brazilian government at that time, but there wasn't any program for assessing a country, evaluating it, relating to the Fund's own lending program for the country, and the Fund--sorry, the Bank, if I mixed up the two--the Bank was rather ad hoc. For example, they'd be very, very insistent that they couldn't lend to a country that had, where their bondholders had outstanding claims that had not been adjudicated. They were very insistent that where there was nationalization without compensation they weren't going to lend. So these were economy policy

issues, but they were not the overall management of the country. They were particular issues that really involved foreign investors in a country where the Bank felt that because it was appealing to investors to invest in World Bank bonds and they were the custodians of such resources, that they ought to be concerned with the private investor's position. So on that they could be very stubborn about things like that.

But when it came to whether or not a country had a proper fiscal policy, monetary investments, savings, etc., they had played a very minor role. Again, individuals in the Bank had done more. I mean, people like Gerry [Gerald M.] Alter, for example, were known for being very interested in this kind of thing and expressing views. But again it was the views--they were much more individual views, it was not an institutional position that was taken. And I, coming from the Fund and having had a great deal to do with introducing it into the Fund and managing it, was very eager to have something be the counterpart to that in the development field. And I could immediately see--I remember it didn't take me, you know, I'm sure it didn't take me more than a day of reading their proposal to see that it had within it the possibility of relating the use of the Bank and IDA combined to some kind of developmental criteria, something that where you were concerned with the whole development process of a country rather than with any one particular aspect of policy. And that is because the resolution itself dealt with a fundamental problem of developing countries, it dealt with the problem that--I don't remember whether we've discussed this before, but it dealt with the problem that in any development program you have to make some kind of projection of the foreign exchange income, and if you don't meet that projection the whole program has to be adjusted accordingly. And then the question would be, if there was a shortfall from that projection, what do you do about it, do you adjust the whole program? Or if there's some way some resources could be available on appropriate terms, then the adjustment process that would take place would be much less. And at that point you were talking about the whole development program of a country and its policies, not merely about one aspect of it.

**ZIEGLER:** So by including this one aspect of the developing country's problems you felt you could at least get a handle on the whole development process within the country?

**FRIEDMAN:** That's right.

**ZIEGLER:** Is that a reasonable summation?

**FRIEDMAN:** Yes, that's right. And we didn't have such a handle. And the Bank at this point doesn't have a program of consultations with countries on macroeconomic policy or what would now be called the policy dialogue, and that sort of thing. It didn't. They had had individuals talking about it, and from time to time they would take up issues with a country, but it was not a systematic part of Bank policy, and indeed it isn't until this day, yet. I mean, that was a very unusual period when the Bank for a little while got involved in this sort of thing. It, well, we'll get to that a little bit later, we'll talk about this thing itself, that--so I saw this proposal as having that and dealing with a very legitimate concern.

There were those who felt, intellectually, this sort of opposition to my own view came from a few different sources. There were those people in the World Bank who felt

that you could not do this except with project financing, and that the Bank was a public sector project financing institution, and that therefore each project had to be carefully scrutinized, there was a number of years involved, and therefore you couldn't expect the Bank to be a quick responder to balance of payments needs. That was one point of view that continued to prevail for a long time.

The other point of view was those who favored commodity agreements. And that was exemplified by a fellow like [Dragoslav] Avramovic in the Bank and by people on the outside who felt that the real solution to the problem was, the way the French pretended to look at it, was that you let international commodity agreements--and at this point in time the international cocoa agreement is being negotiated and these people felt that in some way if the Bank supported the compensatory finance it would be undercutting the efforts to secure international commodity agreements.

Then another group, which was sort of exemplified by Dean [Edward S.] Mason at Harvard, said, "Well, it's good for the countries to have uncertainty. You don't want to eliminate the uncertainty of economics, the uncertainty and risk is what makes the market mechanism work, or is part of the market mechanism, and that it isn't good for countries to eliminate the uncertainty that comes from their having to make a judgment about foreign exchange." In fact, there was a book written at that time, I think by a fellow by the name of McQueen or something, that got a certain amount of publicity because Dean Mason would keep on circularizing the book in the Bank and kept on quoting it and would have lunches with the president of the Bank to point out why he wasn't--why he, Dean Mason, didn't agree with Irving Friedman because Professor so-and-so had written this book to the contrary, and even had been published, I think, by the Harvard Press or some other dignified outfit like that.

And then there were those who felt that, like my former colleagues in the Fund, that this was really duplicating the Fund, that the Fund already had a compensatory financing facility and so what was the point in having this done by the Bank and in fact it wasn't even appropriate for the Bank because the Fund was in the balance of payments financing business and they accepted the view of the--the traditional view of the Bank that the Bank was in the project finance business and anything like this sort of proposal was really, ought to be handled as a matter within the Fund but not as a matter handled within the Bank. They proved to be the most worthy of opponents. They had, they never gave up that position, and it did result in an improvement in the Fund's compensatory financing scheme, which if I may say is something I suggested to them that when they really got after me severely for, reprimanded me for my being a traitor to the Fund by suggesting this for the Bank, and those were the words that were used, I counter-suggested at the time, well, why don't they really outfox the Bank by simply improving the Fund's compensatory financing facility, as someone who had always favored it, more improvement in that facility, and that's what did happen. And actually when they did do it, that tended to be one of the arguments later on that was used against the supplementary finance scheme going into effect was the improvement in the Fund's scheme.

But none of these schemes, none of these attitudes, from my point of view, persuaded me from my own intellect, own intellectual conviction that the strength of the supplementary finance proposal was that it dealt with a problem that none of these addressed, which was namely that this was not a question of a decline in prices or a

decline in earnings; it was a decline from a planning program that, for example, in some cases if you had a planning program, for example, as you would have today in oil--today if you had an oil revenue plan, it would encompass the decline in prices and so if you made intelligent projection today of oil and the international community looked at it, which would be analogous to that, it would be with, say, for example, that let us project for the next five years that the average price of oil will be 18 dollars a barrel, and then you make that projection. And then if it proves to be 12 dollars a barrel or 14 dollars a barrel, then the problem would come into play. But before you got into that problem, there would be a projection that the international community would have scrutinized and so the chances are that the projection, if you were on a downward trend, an uncertain trend, well, the downward trend or in a business cycle situation where you could anticipate that the receipts would be lower, it already would get a reflection in that downward trend. And so therefore it just seemed to me that the Monetary Fund compensation was a compensation for, from the decline from the statistical trend, was the statistical trend approach.

The commodity price approach was one that dealt with prices, trying to stabilize prices within a certain range. But then what this was trying to do was to encourage countries to have planning for their economic development. It was the notion that you ought to program your development, you ought to have some idea of what foreign exchange is available, based upon a projection of earnings, based upon capital requirements and the capital inflow, and in that sense your big parameters would have been set because coherent planning and programming, and this was something which then the international community could evaluate, that you could then sit down and say, "Well, you know, we think that what they expect to get on export earnings is real or unreal," or what they think on capital flows would be real or unreal; their judgment about the terms of trade are realistic or not. These are none of the things come up in these other schemes, they are never judged internationally, but they all were inherent, at least as I saw it, could be inherent in this proposal.

So I took the idea and developed quite a bit of the philosophy of the Bank's new role in the development process on the basis of the supplementary finance scheme. And a lot of our economic work that came out at that time was really, well, sort of a reiterative process that we were thinking about what the economic role could be. But a lot of the inspiration came out of--what would be new was, came out of the consideration of what, if we were doing the supplementary finance scheme, we were implementing it, what would it mean for the World Bank's actual activities and what would be novel about it. And so that was sort of the way, you know, the way or why we got deeply involved in the thing and it became such a cause celebre because we were able to persuade, well, Prebisch, that instead of his leadership being exercised on behalf of commodity agreements, which looked at the time hopeless and I think history has proved that they were hopeless, that outlook for a generalized use of commodity agreements, that he should use his leadership position in UNCTAD to be, to support this particular resolution. And so he became within the UNCTAD family a very vigorous supporter of that, and he did very concrete things.

For example, there was a meeting, I think of the General Assembly or something, which he had a special session devoted to this subject and I was asked to be the speaker for it. Well, it was all due to Prebisch, it was something we in the World

Bank couldn't do, organize or gotten invited to, but he was able to as the head of UNCTAD to kind of sponsor the whole effort on this behalf, and he did. And over time, you know, we got more and more steam behind it to the point where we had very, very widespread international support for it and in the course of it we did develop this whole idea of the role of the Bank in development and after that the role of the Bank in cooperation with the Fund in joint efforts with respect to assessing countries, which was about the closest we've ever—until the real recent kinds of discussions--ever came to real Fund collaboration with respect to developing countries.

**ZIEGLER:** I gather from what you said this might have had a far-reaching effect on the structure of the Bank itself. In your mind, would the Bank internally have had to change a good bit? In other words, you would require perhaps either a larger organization or maybe a changed organization or a bit of both?

**FRIEDMAN:** Well, we did. I mean, we had a--we did change as a result—because, you see, it's hard to separate the supplementary finance from what was going on in the economic work. But we did at that time greatly expand the role, the sort of macroeconomics, on a country-by-country basis. We did install a system of reviewing country programs and policies as they related to the Bank's lending. That was the *raison d'être*, really, of the economic committee which comes into being at about this time. They did strengthen the economic staff in all of the area departments, the head of the economics staff in the area departments still continued to be an advisor in the area departments rather than a deputy director or co-director, which I had favored. But nevertheless, it was strengthened and important, their role of the Bank became considerably more important, and much more attention was given in the Bank to these matters.

And at least the role of the economic committee was established, it was in existence. There was this idea that you weren't supposed to make any loans until the Bank staff had examined the economic condition, program planning, policies, outlook, et cetera, of a country before it agreed to any particular loan. And so in that sense for a period of time there we had, the two things were being integrated, and it had an impact on the Bank's structures which has lasted to this day. I mean, they've never really gone back to the situation before 1964-65 because the economic work of the area departments has remained quite important.

What really changed more--we can talk about it later--was the nature of the general economic work, because the specific, the kind of division of labor that took place was, I had some first you called the department and the department with some groups that were working on more general issues of economics, policy, development policy, that reported directly to me, and then there were these people in the area departments that were doing economic work on countries that were theoretically--I say theoretically, they were supposed to be under my general supervision, but as a matter of fact they were considered employees of another department and worked under some other vice president, in this case usually Burke Knapp was the vice president in charge of loan operations. And similarly there were the economists in the projects department. But we never really got an integrated economics staff, except that in theory they said they all were part of an economic staff so identified, which I was generally responsible for

the standard, professional standards of performance but I didn't really have administrative control over these people.

And that always was a--this is a source of weakness, it wasn't particularly a source of friction, it just, it just meant that the kind of work you got out of these people was greatly influenced by their own personal attitudes and the attitudes of their own department directors. And where you had a department director like in Asia, like Sandy [Alexander] Stevenson, who himself had been an economist, he was very much in favor of this and so his people would cooperate. On the other hand, where you have a department director who was rather skeptical, like in the European department, a fellow named [Sydney R.] Cope who was head of the European Department, and he thought all economics was kind of a waste of time, his economic advisor tended to be much less cooperative. So, and I being the person responsible for the whole thing, did not have the administrative control over it as I did over the departments for which I did have administrative responsibility. So that kind of influence, in that sense it was a, the influence was limited, but the influence was very great. The World Bank did, looked very different than its structure on the economic side by 1966 than it did, say, in 1964.

**ZIEGLER:** What were the ultimate results and the effects of this supplementary financing financial study? I think you mentioned to me once that you'd believed--correct me if I'm wrong--that the current debt crisis might have been averted had something along these lines been adopted.

**FRIEDMAN:** Yes. Well, because I felt that the, sort of the genius of that development, of that suggestion--and I mean here more the genius of people who recommended it in the first place—I mean, we wrote a good report on the basis of it I believe, but those who addressing the question was that--and maybe it wasn't as clear in their minds as it came out as you thought more and more about it--but that there is no mechanism for protecting the development process any more. There is a mechanism for protecting the monetary system; there's a monetary code in the IMF about exchange rates and restrictions on payments and, incidental to that, on the convertibility of currency, and for many years there was also a code on the establishment of par values. There's a mechanism for defending it. You put up Fund resources in order to help countries live up to their commitment; you make it obligatory for countries to get the approval of the Fund to deviate from the code, and coming from both directions you have a defense of the monetary system, either because the system doesn't give you permission to change your exchange rate or it says too much or too little or it doesn't allow you to have exchange restrictions or change payments, or on the other side it provides you with financial resources by which you can meet a balance of payments difficulty without resort to exchange controls or exchange instructions or without resorting to a otherwise unwarranted change in your exchange rate. There's no such thing in a development process, in fact, there's no such thing to this day in the development process, that's why I say we have the fare, because no one has accepted the idea that when you have a cyclical downturn in the world economy and the development process is under, is in jeopardy, that there's a mechanism to defend it. There's a mechanism to finance development, in fact some very good mechanisms in the multilateral, in the World Bank and the other regional development banks, plus a lot of other kind of institutions. But they are all, none of them are devoted to the problem of what do you do in the case of

adversity. They're all devoted to the question of how do you carry on an investment program that is larger than one you can finance from your own domestic savings, and they supplement savings and they do, by and large, a pretty good job at it. But the defense of development, which is the way I captioned it at the time and I still write about it that way, that what do you do in defense of development doesn't exist.

Now the big crisis that happens in the world today, in the early 1980s, comes about because the development program of countries is under attack. Mexico, Brazil is the two critical ones, where the perception is that the government cannot maintain the development programs and the other perception is that the countries are not backing, they are not constraining the programs fast enough and they are bound to get into a balance of payments crisis because of the part of the safe financial world and the world in general. And that's exactly what happened is that the Mexicans did not cut back on their development program in 1980, '81, when oil prices begin to decline, or even in '82; the Brazilians don't cut back on their program when the price of oil goes up in '79, '80, and on the other hand when other of their prices, other of the coffee prices and others begin to deteriorate. And so what happens is instead a country begins to procrastinate in the adjustment process, and during the period of procrastination they get into financial, external financial crisis. Now I'm saying that someday the world's going to get around to having a defense of development the way you have a defense of the monetary system. The supplementary finance scheme was a scheme for the defense of development. Now it wasn't completely comprehensive; for example, at that time we--in fact one of the things we debated among ourselves was whether we should elaborate the proposal because as you thought about it and individuals at that time like on the U.S. side, a fellow named Jo Saxe who worked on it . . .

**ZIEGLER:** He was with AID [U.S. Agency for International Development] at that time . . .

**FRIEDMAN:** Yes.

**ZIEGLER:** . . . and then he worked for the Bank.

**FRIEDMAN:** Yes. Later came to work with me, but at this point he's still AID, and that's how I get to know him. A fellow by the name of Lyle J. Wagner, who was on the staff, Prebisch's staff, and we talked a lot about this over a period of two or three years, that the, there are other things that were threatening development, for example, unexpected large increases in the price of capital goods. This is the period of time when world inflation, at least in my own view--I'm on the verge of writing a book on this, you see--as a result of these experiences, as you can see in the '60s, the world inflation is beginning to accelerate and one of the things that's clobbering the developing countries is an unexpected high cost of capital goods, that you'd have, you had chronic problem of overruns in the cost of the capital project, investment project, because the capital goods were beginning to rise pretty steadily, not very dramatically but over a five or ten year period of an investment program, the capital goods could easily go up 50 percent, and that would mean that you would have a very drastic underfinancing of an investment program. And that was one problem.

The other problem that we saw at that time was the uncertainty of official funding. And so, for example, we became strong advocates within the Bank of multi-annual planning for public investment funds, so that foreign aid programs, the World Bank programs, ought to be put on, say, a five year program corresponding to the five year program of a country, so the country would feel during those five years this is what it could depend upon. Because that was another element of uncertainty, that if they had a political change in the country, it might cut back on the foreign aid to a country. Similarly, we felt that in the World Bank that we should try as much as possible to put the World Bank resources on as long a period of time as possible so that the World Bank in turn would be able to give commitments over a longer period of time. Well, those were some of the other elements of uncertainty, some of the big elements of uncertainty in the picture.

And so we, out of this whole scheme—you see, the scheme was kind of the genesis of this kind of thinking, we developed a whole philosophy about in what way and at what points was development process vulnerable and how could the international agencies play a much more important role in the defense of development. And that's why I think had they gone ahead along those lines, when you hit the oil price increases and you were--because you had some mechanism for dealing with unexpected increase in oil, in import prices, and in the '80s you had the mechanism of dealing with unexpected declines in export revenues, then you would be ready for it, then you would not have had, in my own view, the shriveling up of private bank credit, because at this point, see, I'm in the private banking world by the time the adversities arrive. But one of the reasons why the banks, in my opinion, withdrew so much was that they could see that there was no such international defense mechanism. They didn't get as much concern about the inconvertibility of currencies because we knew in Citibank that there was a commitment to maintain currencies convertible, and we knew that the Monetary Fund was actively engaged in these activities, it had financial resources to achieve its goals, and so we weren't nearly as much concerned about inconvertibility of currencies as we would have been had there been no Monetary Fund and no system, because in the '30s it was inconvertibility of currencies that had been one of the real things that had knocked out the development process then. But we could see that on the development side, on the investment side, that there was no such thing, and therefore it was always up to the governments.

And that's why when I was in the Citibank I spent a lot of time talking to the Brazilian government, the Mexican government, the Chilean government, the Peruvian government, about how were they going to adjust themselves to the adversities which were already appearing at that time. In earlier days it's an increase in oil prices, very soon followed by a worldwide recession. And the answer was that these countries didn't have a defense, and when the private banks saw they didn't have a defense, that accelerated what was probably already inherently a fairly cautious attitude but made even more cautious because you couldn't look down the road and see any other countervailing mechanisms coming into play, so you decided the best way out for yourself was to try to retreat from the situation. So you have vicious circles getting going and the supplementary finance scheme was perceived by someone in the United Kingdom as one of the ways of dealing with it.

Now, the Monetary Fund compensatory financing scheme could really serve a very similar purpose, but in order to do so it would have to be much bigger than it was, and

it would have to be oriented towards development, in the sense that you'd have to say to the country, "Look, we're worried about exchange rates, we're worried about restrictions on payments, we're worried about your inflation, but we also worry about your development, and fiscal policy cannot be aimed to achieve adjustments at the expense of development." And that was the issue that the Fund was able to avoid. The Fund could always accept the idea that through a fiscal mechanism a country could protect consumption as against investment, and it did, and most countries did it that way until finally when the oil crisis and world recession became deep enough you had to cut consumption as well as investment, then the Fund got into real trouble.

But the first thing that was sacrificed under any adjustment program, and most adjustment programs which the Fund could agree to, was the investment program because that wasn't the job of the Fund. It wasn't their job to protect investment. And that's why I said that if the Bank was present, we'd be sitting there saying, "Look, we're not going to agree to this because our job is to protect the investment program and these investments we think are white elephants, and sure you can get rid of them, they won't do any harm, they might do you some good, but just like the Argentine state railways or Sumitha [phonetic] in Argentina, you get rid of those, that'll help the whole economy. But don't, don't keep on subsidizing transportation as you do in this country and making it very, very cheap and very uneconomical for any investments to be made in this area, on the grounds that you don't have any money, you can't afford to do otherwise, when as a matter of fact you have a whole economy there with a very high level of consumption and that's where you ought to look to for your adjustment prices."

Well, this kind of, this kind of philosophy is still very debatable in the sense that it's still--it still is impossible to say that there is a mechanism for defense of development. And that was why my own personal conviction, which is only the one I'm registering, that if you had a defense of development against cyclical developments, and against shock things like the oil price, you would have had a much better reaction to the--much more favorable reaction to the whole world economy, in the same way that the existence of the Fund and the various emergency facilities like the oil facility, the [inaudible] facility, all really helped to soften the blow of the oil price increases. The Fund helped a great deal. As I say, again, that was sort of in the immediate balance of payments and monetary field, monetary adjustment field, and not in the field of defense of development.

And that's why I attach so much importance to the supplementary finance proposal, because it brought that issue to the surface, that's what you were talking about for a number of years was defense of development, and when they buried that, they buried the defense of development for a decade. They just were put aside as a centerpiece of attention. And again you got back to this, "How do you provide resources for your current program? Let's make the Bank bigger, let's make the regional banks bigger, let's make IDA bigger," because our concern is we want to add financial resources and we want to add financial resources hopefully with as large a grant element as possible because that reduces the debt servicing obligation which is another way of saying that the net resource transfer is larger when you have concessional funds than if you have an interest burden attached to it. And so all of us who favor concessional funds like ourselves tend to be in favor of that. But that again is just, it was a

mechanism essentially for how to maximize the transfer of real resources for an ongoing program, not how to defend that program against external adversities.

**ZIEGLER:** How were these proposals received abroad? For instance, I know you addressed some UNCTAD sessions. I saw the transcripts in the files, as a matter of fact. Even though nothing ultimately came of it, did you find that they were reasonably well received?

**FRIEDMAN:** Oh, yes, we had, we had enthusiastic . . .

**[End Tape 1, Side A]**

**[Begin Tape 1, Side B]**

**FRIEDMAN:** . . . remember, very strong supports from the Swiss. In fact among the strongest supporters are the Swiss because they're in UNCTAD, although at this point they're not in the World Bank. And so we had the great bulk of the developed countries, the Japanese--I don't remember whether they were in UNCTAD by this time or not, they may not have even been a member of UNCTAD because I don't remember their participation in it at all. And among the developing countries, we had the strong support of the Latin American countries and of the Asian countries. At first we had only lukewarm support from the African countries because they were very much on the side of commodity agreements. But after a number of times we met together-- I forget when--they too became strong supporters because they could see that they would not, they were not really in contradiction to one another. As a matter of fact, the extent to which you could have a successful commodity agreement, you could have more certainty in your export protections, and the more certainty you have in export protection, the less likely you were to have a problem of unexpected decline in export earnings so that one was not really a substitute for the other. And of course they were becoming more and more realistic in understanding the chance of getting successful commodity agreements were really very small because by this time, all along the cocoa agreement is being negotiated and never able to reach any agreement, and that was one of those that was regarded as a more likely agreement. It's the coffee agreement that is successful at this stage in time, but that's about the only major one, that and the tin agreement, I remember where there were any really what might consider a viable agreements, and all the other things, the sugar agreement, for example, was falling apart and the others were not getting off the ground. They were all starting to talk about banana agreements and other commodities, but they never got anywhere.

So the Africans, who were, as I say, all the time never got to be as enthusiastic about, particularly Francophone Africa, because under the Lome Convention with the French and the European Community they had gotten special concessions from the French and the European Community for their exports. And so they always were, you know, they always didn't feel as threatened by the world situation as the Asians and the Latin Americans who had no particular special arrangements for them and the commodities that they were exporting, and who at this stage of the game--this is in the '60s--they're still primary producers. I mean, it's in the '70s that Brazil begins to turn around, but at this stage of the game a developing country and a primary producer, private producer-exporter were really synonymous. You have very few developing

countries that are really exporters of industrial commodities, leaving aside the usual thing like Hong Kong or Singapore.

**ZIEGLER:** What, in view of the fairly widespread support that the proposal emanating from the study had, what finally happened? Do you recall what happened, why nothing . .

**FRIEDMAN:** No.

**ZIEGLER:** . . I mean, nothing was ever really done about it.

**FRIEDMAN:** Well, I think that, I can only give you this from my particular perspective, and I wouldn't regard this as necessarily historically valid in a sense. It's my view of it. I was very close to it, which on one hand meant that I knew a great deal about it and on the other hand gave me a very biased view about the thing, because I was all along a very strong supporter of this. And as long as Woods was the president of the Bank I had strong support from the president, despite the fact that within the Bank, like the project oriented people, I knew never liked it. In fact we tried to meet their objectives by having a notion of a project, a shelf of projects that needed financing that we were not prepared to finance because of our own country limits, but that we would, our allocations to countries, we would be prepared to expand if they, something happened along the lines of, as opposed to being dealt with by this supplementary finance proposal. But that was only a [inaudible], basically a limping idea because really the way to do this was clearly through balance of payments lending in relation to macroeconomic policy rather than in relation to particular projects. But that opposition continued to be there, but it wasn't, it never stopped, it never stopped the progress we were making in getting international agreement.

The Fund opposition was always there, and that actually resulted about 1968 or '69 in improvement in the compensatory financing scheme which took a little bit of the steam out of our program, but even that didn't stop it.

The U.S. was always an obstacle because it was a lukewarm supporter at best. I remember having chats with Assistant Secretary of the Treasury at that time, Tony Solomon--let's see, Tony was either Assistant Secretary of the Treasury or Assistant Secretary of State, I've kind of forgotten, but he was the person who on the U.S. side was sort of calling the shots on the supplementary finance--and trying to get him to be a warmer supporter of it. And I never did succeed. He wasn't hostile. The American delegation was one of the more active groups that helped me, like Joe Sax, at these meetings. Individuals in the American delegation were helpful but they, you know, because they weren't under instructions to be hostile, but they were also kind of not in the leadership group of this one. The leadership group was more the U.K. and countries I mentioned before, Canada, Switzerland, Netherlands, Sweden, so forth, rather than the U.S. And of course that was a missing ingredient all the time, because anything without active U.S. support was sort of crippled, a little bit crippled, at least in the beginning, but it was going along. And then finally it was, there was McNamara got persuaded that he didn't want to support it because it meant balance of payments forecasting and balance of payments financing and he didn't think that was sensible for the Bank. And so he withdrew his support.

Well, there was always a staff proposal, we'd never put it to the Board to agree or disagree, we felt that agreement or disagreement ought to be within the framework of UNCTAD because it was--we were reporting to UNCTAD and they were supposed to decide. But when--so therefore the position of the Bank president was all important because obviously I couldn't commit anything on behalf of the staff by myself of this level of general importance, and so when McNamara withdrew his support it just ended. And then I got sick, as a matter of fact, and I went fairly soon after that on sabbatical and by the time I got back, as far as I know, it was virtually nonexistent, you know. I'm not even quite sure how it got peacefully buried, or maybe it never got buried, it just got forgotten, just dropped off the agenda and just quietly, you know, it disappeared.

**ZIEGLER:** To wind up the subject of the supplementary financial measures . .

**FRIEDMAN:** Did you think this was at all useful?

**ZIEGLER:** Oh, yes, because--there's a good bit in the file, but it really does help me to get a first-hand perspective, especially of you, what you have to say about how it might have helped currently and also what the view was of the supporters, why it was--I mean, from reading the file, I didn't quite get the sense of why it was such an important, perceived to be such an important subject.

More on a nuts and bolts level, just to wind this up, how was the study prepared internally? Presumably you had the leading role in orchestrating its production, but who actually put pen to paper and, I know it went through several drafts, just a little bit about the mechanisms of how it was all put together.

**FRIEDMAN:** Well, I formed a little working group of a fellow named [Wilfried P.] Thalwitz, who is now a vice president of the Bank, a fellow named Ravi Gulhati, and a fellow with a Norwegian-Swedish name, Ralph--gee, I can't think of it.

**ZIEGLER:** It's probably in the file.

**FRIEDMAN:** Yes. Those three. And they did the work. It was the four of us who did it, and we divided up the tasks. I outlined what I thought ought to go in it and then we divided up the tasks. I think I did the great bulk of the writing on the thing, but they played very important roles in the whole thing, in putting it together. For example, I remember one of the studies we did in connection with that was an actual measurement of the export shortfalls because we had to get some notion about how much resources would have to be committed for this purpose.

You know, I should say that reminds me that one of the, one of the things that was troubling the Americans was the feeling that this would enhance the need for a larger IDA and that this made a case, in effect, for a few hundred million dollars a year more for IDA than was being agreed. This time you're in the midst of the IDA replenishment that's going on, and indeed that was--one of my incentives was that it did make the case for a larger IDA. As I explained to the president, instead of our having to talk about more of the same in the larger IDA, we can now talk about more of the same plus some new functions. And the Americans and Tony Solomon were

quite, you know, explicit with me that, you know, they were supporters of an increased IDA but very cautious and kind of lukewarm supporters because of their own budgetary difficulties at the time. And so that was one of the things that sort of played a part.

Now, in doing the study of how much money--I think it was 300 million we came out with, that was based on very careful analysis that one of the three did. I forget which one, frankly, which one did it, but we did a study of planning, of different plans, like the Indian plan, a Pakistan plan, and how they had actually worked out over time and what the shortfalls had been. And so we had some statistical idea, quantitative idea, of how large a pool of funds or how large a facility you would have to have in order to have played a role in that field, say, in the previous five or ten years. And then we--I sort of forget that the particular component parts, that's the one that was in a way the most difficult to do intellectually, and the--gosh, I wish I knew the name of this other person, because he did play an important role. And particularly his role was that he was my principal critic in the group, he was the one that was more skeptical about the whole thing, so I used to make sure that everything we had was discussed thoroughly with him, because I knew he kind of was the mirror image of all the skepticism of the outside world, whereas the others, Thalwitz and Ravi Gulhati, tended to be kind of loyal supporters and just, you know, do what you wanted and keep along the lines I was thinking. And so the, that was--I don't know if that's responsive to your question or not.

**ZIEGLER:** I also seem to remember a draft that had been circulated fairly widely at a high level. I remember seeing numerous memorandums in the file, people sending to Mr. Owens, who was secretary of the economic committee.

**FRIEDMAN:** Oh, yes. Well, when we got a proposal, it went to the whole economic committee, it went to the president's council, you know, it went to--yes, I mean it went to everybody in the Bank that had an interest in it. It was not done in a little back room. It was--but these were the principal authors and the defense of it was essentially regarded as something I had to do to defend it. But it wasn't, the defense of it wasn't all that difficult because I was a favorite of the president and at that time, and everybody knew that Woods was behind it. You see Woods, whatever he understood of it, he was very well disposed towards it, and he said so to people, you know. And he gave me a great deal of freedom of action to advocate, propagate, defend, whatever it was, this proposal and when it came to the Board, for example, he had informal Board sessions on it and I was the one who took the lead in being asked to defend it and even particularly personally defend it. He defended more as the president, but he thought it was a good idea and he supported it but he wasn't asking his Board to approve it, he was just asking for permission to transmit it, that sort of thing. So I don't remember having a particularly rough time inside of the Bank's staff. I remember having constant opposition to it, but it was like a lot of opposition I had to the economic work: it was more subterranean than obvious. But the depths of the opposition came out later after Mr. Woods left, in fact, while he was there.

**ZIEGLER:** The other area, the other major area I'd like to get into today if it's possible would be the role on the Economic Department. I know that when you came to the Bank it was generally thought that the economic staff had long been neglected

and that the economic staff needed to be built up. What efforts do you undertake in this regard, especially in terms of recruitments?

**FRIEDMAN:** Well, see, when I came to the Bank there was no economics department. It had existed but it had been disbanded. The former director of it, Leonard Rist, was a kind of a special advisor to the president, which he assured me at the time was a non-entity, he really had nothing to do and he was a pretty unhappy fellow, because for a number of years, the first four or five years of the Bank, his department had been quite important and he had thought of himself as coming to an important job. And then when the job disappears, and by this time he hasn't had a job for over 10 or 12 years, this is not a new development. So he was a fairly despondent fellow, but he was a gentleman, sort of really civilized person. He never gave me any trouble at all, although you might have thought he'd be the source of difficulties. He wasn't, as a matter of fact.

**ZIEGLER:** Wasn't it his father who was the famous economist?

**FRIEDMAN:** That's right. [Charles] Rist system of economic thought. And he himself had been an economist by profession and had been in the firm, one of the investment banks, one of the French combination with Morgan in Switzerland during the war. And so in that sense I started out with a clean slate.

So I had to put together a slate. What I did was to canvas the people in the Bank, 20 or 30 people, who all had, had some background in this work and asked them to put down the name of the five people whom they would regard as being most qualified in their own ranks to be head of the Economics Department, because I had kind of made up my mind at the time, rightly or wrongly, that it would be best if the head of the Economics Department would come from within the Bank because I had not come from within the Bank and I thought that since I was going to be the sort of number one person, at least the number two person ought to be a person with bank experience so that between us we would be more balanced. And then a number of names came up and--Drag Avramovic, John Adler, Gerry [Gerald M.] Alter, Andy [Andrew M.] Kamarck, but of all the names, the one name that was consistently in the one or two place with everybody was Andy Kamarck, who at that time was the economic advisor to the African Department. And that's how he got selected, who happened to be a very close friend of mine, but they're all friends of mine, you know, there just was not--I'm not a stranger to this community. And none of them were as friendly as Andy and I were, but partly one of the reasons we became friendly was that he got chosen and this created a bond between us that I obviously did not have with people who weren't chosen. And so I suggested to him and he was very pleased to become director of the Economic Department. I deliberately did not become a department head myself because I was very eager to maintain the view that I was, that as the vice presidential rank in the Bank I was not a department director; department directors reported to me just like they did to other vice presidents. So Andy became the director of the Economics Department.

And then we had a recruitment program which he then joined in, you know, since he then became my, in effect, my deputy, for all purposes. And we--and then first I made a canvas of the people in the Bank who had a Ph.D. or other equivalent training in economics, because I suspected that there were a lot of people in economics in the

Bank because they--what had happened to those people who were in the Economics Department because they had once had a strong economics staff--and found that there was a very large number of ex-Ph.D.s or equivalents of economics in the Bank who were now doing all sorts of things: they were lending officers, they were project officers, they were all over the place. And so my first offer was to these people as to whether or not they would like to come into general economic work. So that was--my first recruitment area was the Bank itself. In fact that's where, at the beginning, the bulk of the people came from, were transferring out of other work.

There was a lot of skepticism of that. And I wasn't too successful in many of them because everyone--a lot of people felt that the tenure was very dubious because, I mean, a lot of people came and spoke to me at the time about how--including people, friends of mine who I'd known for many years in the Bank--how I wasn't going to last and why did I bother coming here, you know, and I'd be out of a job in a few months because all the tightness of the place, the princes and the dukes of the place, would regard this as a threat [inaudible]they proved to be absolutely right and that therefore people were kind of reluctant to kind of throw their lot into this, this new staff. So I think--I recruited I forgot how many, but it was a fairly sizable group, I'm sure it was 10 or 20 people. And I also decided that--I was very impressed in the World Bank how non-international it was compared to the Monetary Fund. The World Bank . .

**ZIEGLER:** Non-international?

**FRIEDMAN:** Yeah, the World Bank was essentially an Anglo-American institution with some Dutchmen in it. And . .

**ZIEGLER:** That's true.

**FRIEDMAN:** . . and that was completely different from the Monetary Fund. The Monetary Fund--I was the only American department director, you see. You weren't supposed to have more than one American department director. And, you know, my real equivalents were Joe [Joseph] Gold, who was an Englishman, Jacques Polak, who was a Dutchman, and a very similar post was Gabriel Peroz, who was a Frenchman, and the only other American was the head of the Secretary's Department and that was to not have departmental rank at that time. But the Middle East Department was headed up by Middle Easterner and the idea that--and our general counsel was an American, was an Englishman. The idea that the Fund, we had it from the first day, you know, when we formed the Fund, we formed it as international staff and the first day the Bank was formed, it was formed as an Anglo-American staff. And to this day it has a lot of that characteristic [inaudible].

**ZIEGLER:** I've often heard it said that the Fund tends to be more European in character and the Bank is more an American type institution.

**FRIEDMAN:** Except that we had not only Europeans but the head of our Asian Department was an Indian. We always had important Indians, Pakistanis, Egyptians, you know, around the world, people carrying--Iranians in the place, [inaudible] who had been head of the Central Bank of Iran was the head of our Middle East Department. So we--so when I came to the Bank that was one of the things that struck me the most was that this staff wasn't an international staff. So I decided to

quickly internationalize it and I hired a--I recruited from my personal experience and knowledge five people or so--I guess about five--to become my sort of kitchen cabinet of inner staff. And they worked on everything. One was a Brazilian, Pereira Lira, who then later became Governor of the Central Bank; another was a fellow named [R. M.] Sundrum, who was a Burmese who left Burma because of a dictatorship of a guy named U Nu, something like that.

**ZIEGLER:** U Nu, that's right.

**FRIEDMAN:** U Nu; and [inaudible] an Indian, was a professor of economics; another one was a fellow named--he was the deputy governor of the State Bank of Pakistan, had been director of research, I'll think of his name, a Pakistani; then there was Bimal Jalan, who was a young Indian who had just finished his work, had been at Cambridge and then at Oxford, he was just finishing his work, he came as a personal assistant. I think I'm leaving somebody out, but it doesn't matter because you get the idea.

So I tried to immediately have a core of international staff. For one thing, I wanted the other, the staff to see--these days we call a signal, I don't think we called it then a signal--the staff of what I meant by an international staff. An international staff was one that had a lot of different nationalities on it. It was one of the, you know, sort of elementary definitions of an international staff was that it had other nations on it. And they became part of this, of my group, very soon Drag Avramovic, Ravi Gulhati sort of became, in effect, like this group. Oh, I know, Louis Goreux, Louis Goreux, who's a Frenchman whom I recruited from FAO to join this personal group, and he was my Continental on it, he was the European. So I had someone from the Middle East, someone from Asia, someone from Latin America, someone from Europe, on this group.

**ZIEGLER:** As an aside, were most of them educated in Anglo-American universities? That's been --do you recall off-hand?

**FRIEDMAN:** Well, Bimal Jalan was clearly . . .

**ZIEGLER:** Oxford.

**FRIEDMAN:** Oxford. Oh, and then there was a guy named [N.A.] Sharma from India. And I think Sharma comes from [inaudible], sort of, I've forgotten. Sharma was Indian university. Sundrum was, I think, the London School of Economics, began with the University of Rangoon, was a professor at the University of Rangoon, but I think he'd also had an English degree. Pereira Lira was a graduate of the university, National University of San Paulo. Goreux had a degree from, had three degrees, one in mathematics from the Poly Tech from the University of Paris, one in statistics from the University of Louvain, and one in economics from the University of Chicago. So he had, he's the only one I had, that's why I remember him, Louis the only guy who had three degrees in that group. We didn't have anyone who didn't have the proper credentials in it, although they didn't all have Ph.D.s. Bimal Jalan, he was English trained so he hadn't had an advanced degree, in fact he had two bachelors degrees, two A.B.s, one from Cambridge and one from Oxford, but he didn't have an advanced degree. But in those days it was practically impossible, very difficult not to

have some who had some Anglo-American, one or the other, in their background in economics. And as I thought of this as an economic staff, economic policy staff, economic research staff to some extent.

And I, one of the things that was very close to me was I got Guy Orcutt, who was a professor at Yale, to come down and help develop an economic and long-term research program. And Guy was a consultant for about two years, and Guy is sort of in that sense another intimate group of mine, consisting of himself and myself, which we would try to plan how we can get the World Bank to be more deeply involved in long-term research. And Guy gave up in disgust afterwards; nobody would support him and that was the one place where everyone managed to block me out even with Woods, you know, Burke Knapp and all these guys just sort of fought it to a standstill. And by this time I had a few hundred people in economics and, in one way or the other, I got six or seven people for the long term research.

That was the big thing under McNamara was that after I leave, what was his name?

**ZIEGLER:** [Hollis] Chenery?

**FRIEDMAN:** Chenery comes along and Hollis--this is Hollis' pet field. I mean, this is--it was like economic policy was my strong field, economic long-term research is Hollis's strong point. And he and the Bank becomes, in economic work, more oriented towards that than anything else. But that was still to come, and it hadn't happened at this time.

**ZIEGLER:** The economics staff had heavy demands replaced on it from what my research shows. How would you characterize the adequacy of the economics staff in terms of numbers and quality, given the demands?

**FRIEDMAN:** Let me, let me, all right, you asked about recruitment so we'll go back to that and we'll try to link it to this.

**ZIEGLER:** Because it does appear as a problem?

**FRIEDMAN:** Yes. I told Woods that we had to have the best economics staff in the world, that was the only way to do economic work was to be regarded as the intellectual center of economic development. And he thoroughly enjoyed that idea, you know, he thoroughly sort of liked the idea that his administration would be associated with this transformation and reputation because at the beginning when we tried to get people to our economic staff the response was very cool on the grounds that you're just a bunch of guys down there making loans and making projects, there's no economic work going on in the Bank.

And so part of the recruitment effort that Andy Kamarck and myself had--and we both did it, and do it usually separately, so Andy probably has stories of his own to tell--we were constantly coming against the argument that, "Who wants to work in the World Bank? Good economists don't work in the World Bank."

But, so to counter that, that was one of the reasons for having a Guy Orcutt there was, you know, we tried to have something appropriate that--see, Guy had been with me

at the Monetary Fund already, and so he and I were very good friends. And so partly it was to kind of give credibility to our desire to improve the standard of the economic staff, and also part of the—one of the strengths of Andy Kamarck is Andy had been a very prized doctorate student at Harvard and as an undergraduate had been summa cum laude, which wasn't exactly an ordinary achievement either. So Andy gave a lot of credibility, particularly in that Harvard group, to our recruitment policy because they had always regarded Andy as one of their prized, you know, people that--the people teaching at Harvard were still people that had known Andy as a student, and they had a high, a very high regard for him. And a lot of the people there, other people on the monetary side, like Habeler [phonetic], were people that I knew very well and they have a pretty good opinion of me. And between us we used our, I would speak to someone like Habeler [phonetic], for example, and Andy would speak to someone like Dean Mason and we would, you know--and Guy Orcutt--and we would use those personal contacts we had with the academic world to try to recruit.

**[Interruption]**

**FRIEDMAN:** But we wanted to, all of these, these were our tentacles. And I had good contacts with Columbia University and with Yale. Yale, Columbia, Harvard, MIT were perhaps the four places that we had, in one way or another--I had, remember talking to Paul Samuelson at the time because he and I had known each other, much better than than now, because our paths have diverged, but at this point even the economic community in the United States is much smaller. You don't have as many professionally trained economists. Now we're in the tens of thousands; in those days we probably were at the most in the thousands rather than tens of thousands, so people knew each other. And that's--a lot of the recruitment was done that way. We didn't do any—you know, I don't think we advertised in newspapers or .

..

It was one of the reasons I got into trouble with administration, with people like Hugh Ripman or--in administration, was because I didn't do it the way they did it in England. I didn't advertise in the *London Times* or the *Telegraph*, "There's a post at a certain level. Please apply." I--we did it through personal, personal contact.

But the other thing that I was very helped by was I told Woods half jokingly but also seriously that if we had a good staff we had to pay 10 percent more than any place else in the world. And that was our policy. We outbid anybody and everybody. We never lost a person because of salary. If we wanted someone we got them and we paid for them.

**ZIEGLER:** Was this the origin of the famous 10 percent premium that you still hear about at the Bank?

**FRIEDMAN:** That's right, that's right. That our people had to be paid a 10 percent premium over everybody else, including the Monetary Fund. And Woods bought that. Again he, sort of coming as he did from the commercial world, out competing with so many, that he thoroughly understood. And I introduced this, and I said it half jokingly and he took it seriously. And that became our policy. So we had a really extraordinary support from the president that we could go out and we could recruit and we could use our own judgment as to what was good. We were completely

protected from any interference by governments; we never went to a government to ask them to recommend anybody; we never even went to them for references.

We just went--for example, like Brazil—we didn't go to the Brazilian government. The two leading economists in Brazil at that time was a very, an elderly gentleman named Professor [Eugenio] Gudin and his great disciple was a fellow named Professor [Octavio Gouvea de] Bulhoes. And this--you may have heard of the Vargas Institute. Gudin had been the original founder of the Vargas Institute and had been the chairman of the department of the National University, had for, you know, generations. And then at this point he's near 90 and so he's retired, and Bulhoes was a young man of 65 or so, is now director of the Vargas Institute and chairman of the department. And I just went to those two and asked them, "Give me your brightest student. Can you give him to me?" And they both agreed that Pereira Lira was the best student they'd ever had at the university in their time. And of course he proved to be the Governor of the Central Bank and all sorts of things. And yet I got him right out of the National University, you see, right out of his doctorate program.

And that's how I got, you know, Sundrum. How'd I get Sundrum? Well, Sundrum, I went to Tun Thin, who had just come to the Fund, had been at MIT and had done brilliantly well in econometrics. I knew that we were weak in econometrics in this group that I had, so I asked Tun Thin to recommend someone he thought would be brilliant in econometrics. And he said, "Well, the best economist I know in econometrics is a fellow named Sundrum. You may not have heard of him because he's a professor at the University of Rangoon and people here don't know about professors at the University of Rangoon." So we hired Sundrum.

And then I went to Goreux. And then I found this guy--I had met him in FAO and then I looked into him and then I could see why he'd knew so much,. This guy had thoroughly overeducated. Nevertheless, it was very, very useful.

Bimal Jalan had had a First Degree Honors at both Oxford, then at Cambridge, and then had repeated the same First Degree Honors at Balliol and a First at King's College. And so this was--but in all cases I never had to worry about whether or not I could out-compete someone.

Now Jalan was a very special case, because when I first recruited Jalan, [inaudible] I was still in the Monetary Fund. He's the only person I brought from the Fund to the Bank, and that was because by the time he reports to duty in the Fund, I'm already knowing I'm going to go to the Bank. I recruited him like in June and I agree to go to the Bank in about July, and start in October, so I agreed with Pierre-Paul Switzer that if he didn't mind this young Indian who had never worked in the Fund, whether I could recruit him. And I knew that he was coming to work with me personally rather than coming because it was the Fund or the Bank because he felt, in any case, that he wanted to make a career--now he's the economics secretary of the government of India--and he wanted a career in India, but that he felt this would be a good experience for him to have some years in the Monetary Fund or the World Bank in Washington. And that if I was the one who had recruited him, which was true, and then he just came with me to the World Bank.

I did not try to recruit from the Monetary Fund, although at this point in time I think it's fair to say I had personally recruited probably half the people--in the Monetary Fund were people that I had either interviewed for recruitment or had been decisive in recruitment, and surely more than half of them had worked with me by this time. But I didn't try to recruit at all from the World Bank. But I rather, you know, sort of, there were individuals in the World Bank--I mean from the Monetary Fund--individuals in the World Bank like Bob [Barend A.] DeVries, who had originally come from, been in the Monetary Fund and gone over to the World Bank, whom I knew personally. And again, on a personal basis, knowing them, I kind of offered them the opportunity to come into my group if they wanted to. At that time John Adler didn't want to because he was head of the EDI [Economic Development Institute]. And on the other hand, Drag Avramovic was glad to come into the group. So just by knowing these people by reputation and personally or mostly as well, I just sort of recruited that way and had a staff.

Now, within a couple of years we were, we were being flooded with applicants, with people coming in and wanting to be part of our staff. But that wasn't true at the beginning. But I said, I don't think it took more than a couple of years for this thing to completely change because we quickly--this country policy work seemed fascinating stuff. We'd talk about doing macroeconomic analysis and discussions with countries on macroeconomic policy and management programming, how it relates to investment, you know. You're really deeply involved in economics and to any professional economist--and I was able to offer them not only good salary but we had statistical support, we had what would be equivalent today to computer support, we had a lot of technical assistance. And we had guys like [Patrick D.] Henderson, who was really a star from Cambridge, one of the really rising stars in England, could come and be a division chief in our place. We've got guys that are division chiefs that other institutions would have been very happy to have had as department directors. And so we, from the very beginning, built this economics department into a massive thing, I mean, ten divisions or something. And then, and finally later on with McNamara we tried to expand it into formation of groups because he liked, you know, he liked to restructure, so we got involved in suggestions for restructuring, but we were doing all sorts of things.

The only other person who came from, came with me from the Fund was a fellow named Ugo Sacchetti, who was Italian. And Ugo had already decided to leave the Fund and had so informed the Fund that he was going to the European Community to take rather a senior job there as sort of the senior Italian in their permanent staff. And he had come to speak to me about it, and I--and his wife right then and there that night at our home said she really did like the idea of living in Washington so I just, I could--that was the difference, I could just offer him a job. I told Ugo, "You want to come work at the Bank with me?" He had been working with me in the Fund for at least 10 years so, perhaps even more by this time, maybe 15 years, so he had been a professor at the University of Rome before he came, as a young man before he came to the Fund, and so he was quite happy to come to the Bank with me. And the Fund didn't mind at all because he had already informed them he was leaving the Fund so they did not regard that as raiding.

But I--we did not recruit in that direction, like I say, we recruited mostly from within the Bank and then using that, then from my personal contacts, Andy's personal

contacts. And then everyone who came on, you know, was encouraged to suggest other people. But we were really--we were thoroughly non-bureaucratic, and like I say, I think I incurred the undying resentment of the administrative people in the Bank. I just didn't do it. You know, they weren't there interviewing people, passing on them and making recommendations.

**ZIEGLER:** [inaudible] support.

**FRIEDMAN:** So I didn't have to do it, and I'm afraid I was pretty cavalier about the thing. And they would make snide remarks, but it was so--nobody, I was nearly invulnerable for the first few years there. And I guess maybe I might have overdone it. But we got it done.

**ZIEGLER:** I gather you knew--then you were generally satisfied with your efforts?

**FRIEDMAN:** I was very pleased. I felt, I felt in those years very successful. We were getting a lot of plaudits from the outside world, the academic world, as well as the world of the United Nations. We were getting--for the first time we were being perceived as rivals by the World Bank. Let me tell you a little story which is, if it's not in the archives it ought to be because it's so . . .

**ZIEGLER:** Let me just change the tape before--that's okay.

**FRIEDMAN:** It's a story because it does illustrate the . . .

**[End Tape 1, Side B]**

**[Begin Tape 2, Side A]**

**FRIEDMAN:** . . . was still the managing director of the Fund in 1960, '61. And some of us had been very much in favor of expanding the publications program of the Fund to give the staff more of a chance to get sort of a public identity of its own because we had a very strict rule about not speaking to the press and not appearing before committees and sort of, and kept people pretty busy in terms of their competing for academic, you know, for sort of learned journals. But yet at the same time, with a great deal of stress of having the kind of people on the staff who had been [inaudible] in their previous positions were likely to have been producers of learned articles, but we were putting them to work on things that really did not result in learned articles.

So we had inspired the formation of staff papers, which was from this time. But then as years went on, we sort of felt that the survey of the Fund, which you may know, the one that comes out with all the information that now is published with--the IMF Survey?

**ZIEGLER:** Right, right.

**FRIEDMAN:** Well, that was started as a project of my desk, that I had the idea in 1946 when I came to the Fund and was absolutely astonished with the flow of foreign language newspapers that we had. I said why don't we issue a bulletin in the Fund, which sort of kept track of the world based upon the flow of foreign newspapers and

all the people knew foreign languages? In the Treasury we didn't have--some people knew German, French, Dutch, this international staff. And so completely on my own I began to issue a bulletin every Wednesday night and did it with my secretary, but based upon clippings and summaries that I got everybody on the staff to contribute. And that went on for about two years. And then when I got promoted to become the so-called policy assistant to the deputy managing director, it was then handed over to an editor who then made it into a regular publication. So I had always had this long interest in kind of staff publication and give the staff a chance to express themselves.

Well, one of the things that came up was the suggestion that we have a kind of journal, a periodical, that would make use of--that would be more current than staff papers and less academic. And this came up through Yakelson [phonetic], through the, a fellow named Jay Reid, who was our publications officer. And we were discussing it one day and I--see, I think I told you, I once had a background on the World Bank, so I always had a kind of hankering about Fund-Bank collaboration, which was unusual at the Fund, but they didn't have my particular background. And so at this meeting--it was about 1960, '61--Jacques Polak is director of research for the Fund. And I--they suggested that we have something called *Finance*, so I suggested, "Well, why don't we ask the World Bank to join us in this activity?" Did I tell you this?

**ZIEGLER:** No, no.

**FRIEDMAN:** To join us in this activity. And Jack just--we're sitting around the table, you see--he just looked at me and said, "Irving, there are no economists in the World Bank that could write for us, that could write with us, and who could keep up with us. You know that."

And then I said, "Oh, you know." Then I gave a few names of people like Andy Kamarck, you see, whom I have known from early years and that I thought there were some economists in the World Bank. But that was the view of the World Bank: the World Bank was not a place for a professional economist of any repute. And, as I say, by 1966, '67, we were being invited to all sorts of seminars, conferences, we were being adjunct professors here and all that sort of thing. So I felt very good in those years that we had really--we had really done something in the way of making, of sort of world recognition of the intellectual role of the Bank in the field of economic and social development. And so this is--you asked about a feeling of success, so it was a very, very satisfying period.

**ZIEGLER:** That story you told is very likely one of the, well, the genesis of *Finance and Development*.

**FRIEDMAN:** Yes, exactly. That's what came out of it.

**ZIEGLER:** Right. Did you--I didn't mean to ask this but you bring it up because it's interesting, in fact, the last issue came out yesterday and crossed my desk. Did you have anything to do with it, nuts and bolts wise? I mean . . .

**FRIEDMAN:** Afterwards?

**ZIEGLER:** Right.

**FRIEDMAN:** No, no, not really. No.

**ZIEGLER:** I know I remember seeing at least one article, an early one, by you on, I think on the Fund, if I remember.

**FRIEDMAN:** Could have been, could have been. But I didn't have much to do with it, no. I have a way of, you know, when I generate an idea or even a program, if I'm not involved in it, I don't get involved in it. You know, I'm always deeply—for example, right now, I'm working day and night on the African Development Bank. That's because that's what I'm working on. The same thing was in the Bank.

One of the things that was very helpful to me—going back to your question—is that I really got a division of labor with Andy Kamarck, whom I both admired intellectually and trusted as a human being and liked him as a human being. He ran the economics department, not me. And, you know, as long as he—he consulted very closely and very frequently about it, and I would go over the final products of the work. But I was very enamored of these individual projects like supplementary finance, commodity agreements, the external debt problem, and I would sort of lose myself in those things. And I would devote a great deal of time to it. And one of the reasons that I could—and I was aware of it at the time—was that Andy was—we were building this economics department together but he was sort of administering it and he was worried about, that people had complaints, wanted salary promotions and so forth, they went and spoke to Andy about it and not to me. And he would speak to me about it if he had doubts about which way we ought to go or it was a matter that ought to be presented to the president and it was my job to present it to the president. And so I would spend a good deal of my time writing memoranda on why the Economics Department should do something. That was my job, was to get it accepted, or to conceptualize what it is we should do. But the administration of the department was very largely left to Andy. And I don't think—and it was very suited to my personality because when I did supplementary finance, I used to dream about the damn thing, because I just immersed myself in that, in the say half a dozen problems of that kind, including the evolution of a program of consultation with countries. That was very dear.

One of the things I was really proud of with the economic committee work was the fact that we had started a program of consultation with countries, that we were getting to a point where we had a view about countries' economic management where we were able to do true collaboration with the Fund and the Bank in that. And those are the sort of things that I was concerned about. But Andy would be much more concerned about the statistical work we put together and the—and the product of the different divisions, you know. The program of work, we would agree to it but it was Andy who pursued it and saw to it that the program of work we agreed got done. And I would see, go over the final product of it.

But he was a very good general manager, and the—that was an important part because in the recruitment, I can't—I don't really distinguish in my mind between the recruitment that Andy did and I did. I mean, I did certain amount of personal recruit—like the ones I mentioned to you, Andy himself, Bob DeVries, Drag Avramovic, these

were my personal recruits. But a good many of them were really people that--that Andy spent more time thinking about and getting the necessary papers because nobody was recruited lightly, you know. I mean Andy, and Andy would visit universities and interview people, for example. I don't remember that I ever did any, maybe once or twice, but he'd be on the road building staff whereas I would be thinking in terms of whom did I know from my--already, you see at this point in time I've had 18 to 20 years of international experience, so I wasn't coming in new on this. So I tended to think more of how to pull into the Bank people that I thought were first-rate and might be worthwhile, whereas Andy was more on the sort of finding the new candidates by his own--well, not only his own contacts and knowledge, but also his very acceptability in the academic world as well, at least as good as mine and so that he was doing a lot of things that I'm sure would be very much part of this whole story of the questions you're asking me.

**ZIEGLER:** To wind up the economics, do you--can you just comment a bit about your role in the Economic Committee? I know you really built that up and of course you were the chairman of the Economic Committee. Did you make any changes in the procedures of the Economic Committee during your involvement in it? How did you envisage its role? Like a general staff, I suppose?

**FRIEDMAN:** Well, I--I don't know how to describe it briefly. But I think the--it did evolve over time. I mean, it became more formal all the time. And we got a secretary, we've got to have minutes, you know, I mean it all--we got agendas out and we got agreements and all that sort of. But I didn't conduct it that way. I never asked whether minutes were approved or anything like that. But the--so the conduct of the meetings weren't--I don't remember that being particularly changed.

What happened over time is that the attendance became better and better. People began to take it more seriously and less excuses found for not coming to the meetings. Particularly, I think, it was helped a lot by the complete cooperation I got from the Monetary Fund's heads of departments because guys like Jerry Alter knew damn well that [Jorge] Del Conto was a more, at least as important a figure, if not more important figure, than he was in Latin America. So if Jorge del Conto was going to come while we talked on Chile, then Jerry Alter had a real reason for wanting to be there. [D. S.] Savkar would come on Asia; well, Savkar, who's more senior than anybody we had in the Bank, on Asia, so if he was going to come to a meeting when they discuss India or Pakistan and Thailand, I'm sure that that had . . .

**ZIEGLER:** You had people from the Fund . . .

**FRIEDMAN:** All the time. We never had a meeting without them.

**ZIEGLER:** Oh.

**FRIEDMAN:** And we never had a meeting, as far as I can remember we never had a meeting when the department director of the Fund was in town that he didn't come. It was his number--he gave it a number one priority. That's what I mean by splendid cooperation. Same thing in the Middle Eastern countries; they came. And because they came, their counterparts which were the directors of the loan departments, were

much more likely to come, and when they didn't come I had very good attendance of all the economic advisors, not always from the director of the departments.

I would say I was helped--the magnet was the Fund people as well as our Economic Committee. The economic advisors did come, and then I was very much helped by the fact that some of the people in the Projects Department, particularly a fellow named [Shigeharu] Takahashi, who was the chief economist on agriculture, was very friendly and he was sort of the, at that point, among the two or three senior people in projects work because agriculture was very important and he was the chief economist or the chief whatever-you-call-it in agriculture at that time. And he would come and participate fully. So it wasn't--you know, there were some people that just didn't cooperate. Guys like Warren Baum never showed up, for example. But most of the time, most of the people did. But as I say, as it went on it caught on more and more.

At first I would have a number of meetings with people, the debate would be on why are we here. Some of the people from the European department, Cope's people, for example, would constantly be raising the questions, "But you know, Mr. Chairman," or whatever they called me, "I don't even know what their relations are with the," you know, "You're now dealing with that which the Loan Department ought to deal with," or "You're now dealing in something that the Monetary Fund ought to deal with," "You're now dealing something that the World Bank has got no business in," you see. This kind of jurisdictional, administrative, political questions would come up. But--I don't know when, but after a while they died away and people just came and discussed the subject on the agenda.

So the first months, though, it was, it was in essence hard sledding. But I, again, I had such strong support from the president, I don't remember ever having to appeal, appealing to the president for support, but I remember many a time when I felt like it because I was getting some strong opposition. But always I think [inaudible] we were, we were winning, you know, we were getting people more and more to accept this. And it never got as much accepted as I wanted to, sort of the innovation we got was that before you went to the Board--well, when you went to the Board with a loan proposal, the document from the President, the presidential document, ought to have at the beginning, the first half of the document should be a commentary on the economy of the country and what you thought about its economic policies and economic behavior, before you commented on the loan.

Another innovation. I as the chief economist of the Bank was invited to sit at all Board meetings with Burke Knapp. So every Board meeting had the Secretary, Burke Knapp and myself. We'd have three, you know, four chairs, the President with the Secretary to his right and the two left chairs which were--and the chair, my chair was for me to fill. And if I wanted to, in my absence, I could ask Andy to fill it, but I was in command of that chair. That was an innovation. No economist had ever been regarded as being essential for every single meeting, and no matter what the subject was I was among the--Burke and I were the two people always there. Burke had always been there, you know, always been there. That was a prerogative which he was beginning to share with me, not one that I shared with him. And so--I was never quite sure whether Burke was particularly happy about that. And then after while it got to be so that if it involved something that Dick Demuth was interested in or Aldewereld, they would also join. And Aldewereld kept on pushing for the idea that

he ought to be at the table, and after a while he was virtually there all the time because practically every loan was a project loan as well, so as the vice president for projects he had a reason to be there.

But those were the ways in which you knew you were winning because they all didn't happen at once, they were just different things that the president--you knew you had the strong president's support, and all the Board members would come to me, including some very old friends like David Pitblado and Eric Roll of the U.K., and congratulate me about all the success we were having and how I was really transforming the Bank. And particularly some of those who had been influential in persuading me to go from the Fund to the Bank were then saying, "See, Irving, we told you if you came here you could really change this place." So I was getting a lot of ego feeding from these people about how my presence in the Bank was really making a great deal of difference. And I guess, objectively speaking, in those years it was true, you know, it just was true.

And a lot--and I like to think a lot of what we did then remains. It was institutional structures, it wasn't just a policy attitude on some particular passing problem, it was how the whole question of the role of the World Bank and the economic development and some of that philosophy, I guess much of that philosophy has been institutionalized. But people there take it for granted.

**ZIEGLER:** The last question is on the Economic Committee. What did you want, when you came to the Bank what did you want it to become, that is to say, the Economic Committee, and did you succeed more or less?

**FRIEDMAN:** Well, again, let me tell you a story. Stop me if I've told you this one in another context that comes to mind. When I went to the Bank, Schweitzer, I think I told you, was pretty skeptical about my going there. And he made the--and I made the point to him as I do now, "After all, Pierre-Paul, the Fund and the Bank are really, are twins, so I'm just going to work with another twin here."

He said, "How can you say they're twins? They don't talk to each other."

I said, "Well, at least part of my effort will be to make them cousins, friendly cousins, if not twins." Well, that's what, much of my motive--I mean, I really did believe in the Fund and the Bank having a joint role in this whole world economy. You know, I was very devoted to the idea that the world was much better off because the Fund and the Bank existed, and that the world would be even better off if these two institutions would in effect some way collaborate and join forces. And I saw the Economic Committee as both the vehicle for the Bank playing a much more important role in the economic and social development of these countries rather than a project role and also as an instrument for Fund-Bank collaboration.

And the only reason that I did not put it on a more formal basis--and I didn't, never even proposed it because I knew from talking to people in the Fund and in the Bank were that the Fund people were just as actively opposed to formal collaboration as the Bank people were, that they were very scornful of the Bank. They thought that I was crazy to go over to the Fund and they couldn't--to the Bank--people like Joe [Joseph] Gold and [J. J.] Polak and Brian Rose and [inaudible], you know, people still there,

they thought that I had gone out of my mind. And they all had this vision that probably what I did, was getting a huge amount of more money for going because they couldn't imagine what else, why would Irving ever go to that place? But I had a different view of it, and part of the view was that these two institutions could and ought to work together. And I was egotistical enough to think with my background in the Fund and my sort of position in the world affairs--because at that time my--I guess my position in world affairs was never stronger than it was at the time I left the Fund for the Bank--that I would be able to, with the help of the president of the Bank, be able to do, because I knew that Pierre-Paul Schweitzer in the Fund as not himself the source of opposition, that it was coming from the staff, and that he didn't really give a damn one way or the other, but that Woods would be well disposed, I thought, particularly if I recommended it. And so I saw the Economic Committee as an instrument of that kind.

I never felt that the Economic Committee had as much influence as I originally hoped for. I didn't--there was a kind of, kind of unspoken Chinese wall between Knapp and myself. I didn't go to the meetings of the Loan Committee; he didn't come to my meetings. That would have been the sign of real success, had we. We stood on each others--we stood on our own turf and we protected our turf, except he was protecting a turf that was very well established and he was protecting it, and I was trying to build some turf out of some sand, the bottom of the ocean, to have some ground to stand on.

But in that process, I think the Economic Committee got increasingly influential as time went on. But I never did have the feeling that I had--for example, I had been chairman for many years of the IMF consultation team. And in 1951 for maybe 10 years when it still existed, that was decisive. You know, we—it was just as though you combined the economic team and the loan team into one. The economic considerations were the decisive considerations, whereas I had a feeling with the Loan Committee that after we said all our economic piece and had an influence, that these fellows just went ahead and made a case that they wanted to make. And I wasn't at all sure that there was this close integration between our economic judgments and our loan decisions that it might have looked like to the outsider. So I personally never felt quite fulfilled in what I was hoping to achieve from that Economic Committee.

But I, nevertheless, at the same time felt quite successful because we were making a lot of progress over time. And it seemed to be getting better and better until McNamara came along and then things began to be different. He had a very different set of criteria about the Bank than George Woods. His definition of success was a very different definition. But, that's another story.

**ZIEGLER:** Woods, just one thing--I did just want to get this . . .

**FRIEDMAN:** [inaudible] back to work.

**ZIEGLER:** Why this--throughout the time I've been at the Bank, and that goes back a little ways, it never seems to be a great deal of cooperation between the Bank and the Fund. They always talk about it, and one would think that they're complementary—I mean, I'm somewhat perhaps naïve in this respect--[laughter] but I would think, you know, one deals with projects basically and the other deals with some of the balance of payments problems, basically, country economic policy, if you

will, put very crudely. And they would seem to complement each other, and yet clearly they haven't for as long as they've been in existence.

**FRIEDMAN:** Well, yes, they've had a whole generation and now it's even more than a generation, of not being truly collaborative, except on the individual basis and a case basis. They've been competitive institutions. We used to hate the World Bank, the first years of the Fund. They despised us in the Fund. They would do, they would make cracks about us in public that were unbelievable because we went for 10 years without making any money in the Fund, you see, and they were making money from the first day. And they were being feted by bankers and, you know, being taken to dinners and so forth, because they had bond issues and everybody wanted them. And also they were lending money and we weren't. And all we were was a bunch of economists, you see. And they had long time learned to scorn economists. And we didn't have any particular good will for these guys, that is, we being the Fund in general. And I in particular, I also didn't have--outside of individuals within the Bank that I liked, I didn't have all that much good feeling about the Bank, either.

And then history has always put us, I think, in a kind of unfortunate thing that when the Bank's been important, the Fund has been unimportant. When the Fund is important, the Bank is unimportant. In some way they haven't been able ever to be in tandem. They haven't suffered common fate. For example, if in the last debt crisis--again we get back to supplementary finance--if something like that had existed, we both would have equally together have been handling the debt crisis, and either they'd both have made a success out of it, the way the Fund has, in which the Bank would have felt good about the Fund's role and the Fund role would have felt good about the Bank because they were a team doing it. They have not done that.

I mean, it's always been when the World Bank was doing great in the, in expansion in the '50s, the Fund was being moribund. And then in the 1960s the Fund becomes somewhat more important and the Bank is expanding and that's when we begin to talk about collaboration. In 1970s, the Bank--the Fund gets its spurt of importance because of the oil crisis and people begin to see it as the emergency balance of payment support, and the Bank is sort of getting lost in a whole bunch of project lending and expanded project lending instead of playing the role on the oil crisis and inflation crisis. And the crises of the '70s and '80s get to be a Fund concern and not a Bank, and the world is paying attention to the Fund. And into the '80s, well, the world is paying less and less attention to the World Bank and this gripes the hell out of the World Bank, it makes them very jealous. And so I say, I think the answer to it is that they've never been a team. They were conceived of as a team, but they never were made a team from the first day they--they were not, the leadership of the two organizations did not collaborate from the top down.

I remember we had long discussions in the early days of the Fund, that is, the first few months of the Fund, first year, we'll say, when we talked about a common library and things like that. And already even then, you know, getting a common library was considered a big achievement, you see. But at least we talked about having a common library. And now they don't have a common library.

**ZIEGLER:** They still do.

**FRIEDMAN:** They do? I see.

**ZIEGLER:** Yes. It remains. It is referred to among us at the Bank as the Joint Bank-funded library.

**FRIEDMAN:** [laughter] And it was, well, then, that was one of the things. We'd go to the Fund, I mean we the Bank, we in the Fund had scorn for these guys, because we'd go to the Bank and they'd ask, "Well, why do you need a library? You're buying too many books." You see, that sort of thing.

And that would drive us wild, and we'd just say, "To hell with these guys." Those of us who knew about the World Bank and knew that it was not supposed to be a bank in that sense of the word, we saw the thing being captured by bankers and they were making it into a bank like First National City Bank or the local Riggs Bank, you see. And as far as we were concerned, we were much too superior to that sort of thing. You know, that wasn't our mission in life or our ambitions.

And we, you know, we--it was evident in those days, any--nobody from the Fund ever tried to get a job in the World Bank. It's as simple as all that. When you're all equally sort of uninformed about both institutions, because no one had yet become an expert, but people didn't go from the Fund to the Bank unless there was some extraordinary thing like Bob DeVries going because he married Margaret DeVries who was in the Fund and you're not supposed to have a man and wife in the same institution, so he goes to the World Bank. But by and large you don't move from the Fund to the Bank, and you don't move from the Bank to the Fund. I was one of the first people of any rank, the first person of any rank, to move from one to the other. That was 18 years after it was formed.

**ZIEGLER:** So you're . . .

**FRIEDMAN:** And I was considered a very oddball and--very odd on both sides, as I've said before. The World Bank people were, at least thought it was peculiar and I'm sure some were resentful, and my colleagues in the Fund just thought I'd gone looney to make this change, because it just wasn't being done. And to this day it is really not being done as an accepted thing that--it's not really a common career. Well, you'd think one of the easiest things in the world to accomplish is the notion that the Fund-Bank would be a common career. But it isn't, and in some respects maybe it's lucky for the staff that it isn't because when the Fund is going sour the Bank staff is being protected and then in the next, 10 years later someone comes along and says, "You know, the Bank fellows are getting paid 25 percent more than us. How about jacking us up?" And then 5 years later the figure is reversed. So maybe they both profited by the distance that's been maintained. But it surely means that the staffs cannot regard themselves as belonging to a common civil service, you see.

And it came up in my case, when I was in the World Bank—I'll leave with a Woods story and then we'll both go back to work--but it's got to be the 25th anniversary. They decided to have, you know, to honor people who had been in the Bank--no, 20 years or more. And they got a little plaque. So when that 20 years came, and I had been there for 20 years at this time, jointly—in them both--theoretically it's always been a joint staff, you know, Friedman moves, when I come over, had my pension and

all these other rights transferred. When it came to hand out little plaques, I wasn't given one. So I mentioned this to the president. And he called up Ripman, head of [inaudible], "Irving doesn't get one, he's not--he has only been with us for two years."

So I said, "Well, you know, it was supposed to be joint, when the hell am I going to get a 20-year, because I'm never going to have another 20 years here," you see.

So he told him, "Nope, got to give one to Friedman." So there was a special one for me, the only one that reads--and "For 20 years of service in the Monetary Fund and the World Bank, World Bank hereby," you know, congratulations and so forth. They just couldn't swallow the idea of 20 years without pointing out that part of it was, of course, of a secondary character being at the Monetary Fund. And if this was in the Monetary Fund, exactly the same thing would have happened. That's 20 years later.

And 40 years later, it's even worse, you know, it's even worse. You know, they'll have a 8-point examination in the Monetary Fund, completely separate from the World Bank.

**ZIEGLER:** And they'll come out with different results, too. That's what's happening.

**FRIEDMAN:** That's right. Yeah, you see. It's weird. But your question's a very good one, but I think it's a deep history of the place and it's--I don't know, it's got its pluses but I think also the world would have been a much better place had these two institutions had a more team notion, and particularly, in addition, if they did have a notion that it was a common career.

See, I have been in favor, and propagating it's another point, for some years that the Fund and the Bank and the regional development banks ought to be one common career, that the person who came into that career, everyone who came into that international sort of economic/financial world, international financial world, would feel that all of those five or six major institutions were part of his career, could be part of his career, and that he would have a chance to sample the experience of others and if he was not comfortable in one, it would be completely acceptable to go and speak to another part of these.

And also the example I was, I think, perhaps among the first if not the first in the Fund, was to set up the goal that everyone in the Fund should be trilingual, that everyone in the Fund ought to know English, Spanish and French, and that we ought to be willing to finance--I set up the program that everyone in the Fund who wanted a Ph.D. in economics should have one and we should be willing to finance their going away on a sabbatical to get them. People in my group did. All this was a sort of notion that the career you were building was a career you could experience all over the world on behalf of the international community. And you were working for the international community, particularly--not the U.N. because that had the problem of having membership that was different, but all these other institutions all had the same members and therefore there wasn't a question of conflict of loyalties and working for one as against the other. But it's--and I'm pushing this now with the African Development Bank and the World Bank, trying to see whether they can't think in

terms of a common, some kind of commonality of staff between those two. Shall I say I'm not getting very far?

**ZIEGLER:** Well, thank you very much, Mr. Friedman, I appreciate it very much.

**[End of Tape 2, Side A]**

**[End of Interview]**

