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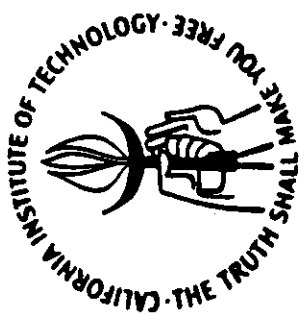


A CONVERSATION WITH RICHARD H. DEMUTH

WASHINGTON, D.C.

JULY 18, 1985

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CONVERSATIONS ABOUT GEORGE WOODS  
AND THE WORLD BANK

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OLIVER: Dick, I won't begin with a long and elaborate summary of your distinguished career, but I would like to say for the record that I think your interview with Bob Asher of two years ago was at least as outstanding as he says your interview with me was back in 1961. I'm pleased to have this opportunity. I have read your interview with Bob Asher and I have a few questions about it. The most obvious one is on page 3. You refer in passing to the fact that the second half of the George Woods administration in the Bank was a less happy one than the first half. Would you elaborate on that?

DEMUTH: I don't know if I can say really say much more than I said in my interview with Bob Asher. It was really quite extraordinary that George did contribute as much as he did in the first half, and then he lost confidence in himself for some reason or other. He lost the confidence of the Board; he was fighting with them all the time. He was fighting with governments because he hadn't been able to carry out the IDA Replenishment or get an agreement on the IDA Replenishment even though the kind of agreement that was ultimately reached was obviously obtainable right from the beginning. In the end, I'm sorry to have to say, I don't think anybody except the Executive Director from Morocco -- George and his wife had special relations with Tazi and his wife; he

was unhappy to see George go. The final banquet given for George was one of the saddest occasions I've ever been to because there was nobody there except Tazi and his wife who was sorry to see George go, and everybody knew that including George. As I said in my interview with Asher, he really was Dr. Jekyll and Mr. Hyde in terms of his contributions to the Bank.

OLIVER: Do you know whether Mr. Woods had sought a second term?

DEMUTH: I really have no knowledge of that. If I had to guess, I would say that George was smart enough and aware enough that he could not have gotten a second term if he had wanted it. Therefore, I doubt whether he made any real effort to get it. That's just surmise on my part.

OLIVER: What were some of the symptoms of the difficulties of the second half? Was it partly a matter of personal relations between Woods and other people. Was it a health problem? Was it a manifestation of . . . ?

DEMUTH: I don't think it was a health problem. It was his relations with the Board. The Board meetings were acrimonious and unpleasant instead of being the rather relaxed and instructive and pleasant affairs that they had been. And his relationship with his principal officers -- except for Irving Friedlan, whom he had to back. Irving was his one effective appointment as a senior officer, and so he backed him, because Irving was his man. Whether he thought Irving was right or wrong, he backed him. Apart from Irving, I think his relationship with almost every senior officer in the Bank was

difficult. You may get different reactions from some of the other people, other officers who were in senior positions, but that's my view.

OLIVER: You say in your interview with Mr. Asher that there was antagonism between George and almost everyone on the staff, and you tend to attribute this to his background in private enterprise: the way of doing some things in New York may be different from the way they are done in diplomatic circles. I want to ask, was it really that, or was it partly George Woods' own personality?

DEMUTH: Oh, I'm sure it was partly George's own personality, but I can recall distinctly an interview I had with George in his office in which he ran down every one of my senior colleagues. And I knew perfectly well he was doing the same thing when he was talking to them about me. The Bank before this had been a place where all the senior officers worked together, were friends, knew each other's strengths and weaknesses: a collegial group, and this just broke apart.

If you read the article that appeared in the New York Times Muzzing about Lehman Brothers and the fights that went on there, you can see what I mean about private enterprise, competition for power. In the Bank there was not that much competition for power. We were a group that worked together, happily worked together, and this was not George's background it seemed to me. But it certainly was partly his own personality.

OLIVER: I haven't seen the article about Lehman Brothers. Was it recently? Or many years ago?

DEMUTH: Six months ago or so. It's a fascinating article.

OLIVER: You refer on page 8 to the President's Council, and you say that during the time it met. . . . Can you say a little bit about why it got started? Has it continued? or did it stop at some point?

DEMUTH: Well, it got started, as I recall, during a retreat that George arranged for the top staff of the Bank down at the Homestead. He announced there that he had decided to set up this council consisting of the vice presidents. I think Broches and I were the only non-titular vice presidents who were members of the Council. Subsequently, John Adler was invited to attend. This was an executive committee as far as staff was concerned. We met on occasions, three or four times a week, maybe everyday, and this is where the Bank's policies were established. George didn't give up his authority to this council. He was still the boss. McNamara.

OLIVER: Well, I was going to ask whether the President's Council continued under McNamara.

DEMUTH: It did continue under McNamara. It got changed under Clausen, I believe. Clausen set up a management committee, which I never understood. It was a committee of people who weren't represented on the President's Council called the Management Committee, and yet, if any group was a management committee in terms of really knowing how the Bank operated and was managed, it was the members of the President's Council. But that is something that you will have to inquire about from others.

OLIVER: I would like to ask a bit about the IDA Replenishment which

began in 1965 and continued another couple of years with negotiations. It appears to me that George Woods had hoped for a much larger replenishment than actually occurred in '67. It wasn't until 1970 that the billion dollars a year which Woods had sought was voted by Congress or made available as a result of the vote of Congress. You indicate in your interview with Mr. Asher, I think, that the addition to the replenishment was quite large enough at the time. Could you elaborate on that? Why did Woods seek a much larger amount? Why did you feel that he was unwise in doing so?

DEWYTH: Well, I don't think I indicated in my interview with Asher that I didn't think a larger replenishment wouldn't have been a good idea. I just think it was fairly obvious from the views expressed by governments that it just wasn't in the cards.

I have never thought it was the job of international organizations to tell governments what their policy ought to be in terms of how much money they ought to put up. I think it is the job of international organizations to tell governments how much in terms of additional funds they can effectively use, what the effect of withholding those funds would be, what the effect of withholding those funds would be. The question of how much ought to be put up is a question of policy for governments, and I don't think international organizations ought to be saying to governments, you must put up so and so much. They can say, if you want to develop Africa the way you say you want to develop Africa, you have to put up X amount of more money --- in an order of magnitude, X amount --- and on such and such terms, but then it ought to

be up to governments to say, We do or we don't want to do it."

OLIVER: Do you think the Bank should have what amounts to a lobbyist to try to reach the American Congress to pass the appropriations the Bank seeks?

DEWYTH: No, I don't think the Bank should have a lobbyist. I think that whatever relations there are with the Congress ought to be run by the Treasury Department or by whatever department in the U. S. Government is charged with relation with the Bank. I always thought that supervision for the U. S. representation to the Bank should be in the State Department. The Treasury Department ought to have an effective say in how much money the U. S. puts up, but how it is used ought to be a State Department responsibility. I think it has been a mistake from the beginning to allow the Treasury Department to have a say over how the Bank operates within a given sum.

OLIVER: I've been told that Mr. McCloy and Mr. Black both had agreements with the American Government that each of them in turn would have a say in the choice of the American Executive Director, that that was part of the reason that relationships between the President and Executive Directors was relatively easy. Do you know if that is so? And do you know whether or not Mr. Woods sought such a relationship and failed to get it?

DEWYTH: I do know that Mr. McCloy got such an agreement out of the U. S. Government. After the presidency was originally turned down by others, Mr. McCloy was offered the position. He consulted with Mr. Meyer, Mr. McLain (his ex partner) and a number of people in the Bank.

He put down a series of conditions which basically constituted a moral commitment that the U. S. would give him their support and allow him to run the Bank unless some particular action be proposed was considered contrary to U. S. interests -- all this in contrast to having the U. S. run the Bank as Pete Collado, then the U. S. Director, wanted it done. As part of that, because Pete was still the U. S. Director, McCloy wanted a veto over the appointment of the U. S. Director. He was turned down by the U.S. on these demands and conditions of his acceptance. He declined the offer, and it was some months later, after the post was declined by a number of other people and the Bank looked as though it was going to pieces, that the U. S. came back to McCloy, and said, "We will now accept your conditions." One of those conditions was what you say. Now, if Black had such an agreement, I don't know. I assume that everything McCloy had probably carried over automatically to Black without any new agreement, because Black by that time was a member of the Bank family. I don't know about Woods' negotiations.

OLIVER: I have also heard that one of the reasons why relations with Congress were good in the Black administration was because Mr. Black himself knew several senators and several congressmen quite well, and that they were reasonably good spokespeople for the Bank. Woods, and later Mr. McNamara did not have this personal relationship.

DEMUTH: Well, Black is an extraordinary human being. I remember when I was sitting outside his office -- I guess I was then Assistant to the President -- and the Minister of Finance from some country went in to see Black and came out and said, "Damn it, that Black turned down my

request for a loan. It's just awful, but I love him nonetheless. He's a great fellow."

Everybody liked Black. He just had a wonderful manner of handling people. I guess this had a good deal to do with his relationships. I think also, I may be wrong, but I think Doug Dillon was then Secretary of the Treasury. Black and Dillon had a very close relationship. I guess that the Treasury was then operated in much closer harmony with the Bank and Congress than in subsequent years.

OLIVER: Can you comment on the relation between Woods and Henry Fowler who succeeded Dillon as Secretary of Treasury?

DEMUTH: No, I really can't.

OLIVER: I am asking these questions because they follow from the IDA Replenishment. I take it that you felt that it was simply unrealistic to seek a second IDA Replenishment as large as Woods sought, and that if he had been willing to accept a smaller amount, that particular friction at that particular time might have been avoided.

DEMUTH: I think that's right.

OLIVER: And I take it that this second IDA Replenishment occurred at about the time that the second half of the Woods' Administration began. I'm still fishing for possible reasons why the second half of the Woods Administration was less happy than the first half.

DEMUTH: Well, I think I indicated in the Asher interview that the IDA Replenishment was one of several things. Another of the things that was very important was his relationship with the Indian Government. George had an idea that he could pull the Indian Government out of

their troubles, get their economy changed by just telling them that that was what policies they ought to adopt. I don't think he realized what political difficulties there would be in accepting the kind of policies he was urging on the government. Finally, they accepted those policies and they didn't work, and the Indian Government got very annoyed at Woods. I think this was part of Woods' loss of confidence in himself.

OLIVER: Were the policies he was recommending the result of a bank study on India?

DEMUTH: Yes. Bernie Bell will know more about this than I.

OLIVER: Can I ask a bit about the economics work that went on in the Bank at this time. I think you say on pg. 11 of your interview with Bob Asher that economists had not played the role in the Bank that they should have played. Can you elaborate on that? What role do you think they should have played? Why had they not played a bigger role? What kind of role had they begun to play in the Woods years?

DEMUTH: Well under the first two presidents of the Bank and Bob Garner, the vice president who was really the chief of staff of the Bank, the economists were not highly regarded. One of the reasons for that was that Mr. Meyer mistakenly appointed Leonard Rist as head of the Economics Department. Now Rist was a banker; his father was an outstanding economist. Those of us who were helping Meyer staff the Bank recommended that Rist, who was then the Alternate Executive Director for France, be appointed the Treasurer of the Bank, in which capacity he would have been very good. Meyer took Rist out to lunch

and came back with a big smile on his face. "I got Rist on board; he is going to be head of the Economics Department." It was a catastrophe, because Rist was not an economist.

I was in a position, basically, at that point, of interpreting to the economists what the management was saying and vice versa. Garner was talking Wall Street language that the economists didn't understand. I was interpreting to the economists what management was saying, and I was interpreting to the management what the economists were saying.

There was just no direct and easy communication, and they didn't build up a good economics staff. They hired a number of economists, but very few, except Rosenstein-Rodan, who were considered top rank economists. Many of us thought that the Bank's lending should have been based much more on the kind of economic analysis that subsequently took place.

That doesn't mean that I liked the tremendous expansion of economists writing reports on all conceivable subjects. Research ought to be done primarily in academia, and not in the Bank. I think they have gone wild in terms of number of economists and the kind of economic work that is being done. It's the difference of day and night between what it was when Woods came in and what it is now.

OLIVER: Well, I take it that one of the major things that Mr. McNamara did was to bring in Hollis Chenery who was from academia and was anxious to have similar work done within the Bank itself. It was competitive with and similar to work being done in universities, and that is one reason why the economics in the Bank were not necessarily related to the operations of the Bank.

DEMUTH: I think that is true. Chenery was not in academia when he was brought into the Bank. He was the chief economist of AID and had been for a couple of years. McNamara thought very highly of him and told the directors that although he knew that they would be unhappy with having another American appointed to a top spot in the Bank staff, when they met Chenery they would find he was such an outstanding development economist that his nationality wouldn't matter.

Hollis was brought in. Hollis is a very able, bright man. In the first place he believes that anything can be quantified. This is also one of Mr. McNamara's beliefs, and so he and McNamara thought along the same lines. But Hollis was also an empire builder; he was all in favor of the Bank publishing a great deal more. I thought I was a voice in the wilderness when I was in the Bank and trying to get us to publish more country economic reports. It seemed to me that we had a lot of material that ought to be published and was not confidential. We would have more information in the future. Hollis finally brought that about. In that respect I think Hollis certainly made a great contribution. But as far as I could tell while I was there, very few of the economic research activities that the Bank undertook under Hollis had any effect on the Bank's actual operations. That being so, it seemed to me it wasn't something for the Bank to do.

OLIVER: Can you now back up and say a little about the Woods initiative in Economics? About how Irving Friedland came to the Bank-- and Andy Kamarck?

DEMUTH: As I said in the Asher interview, I think it was Andy Overby

who recommended Irving to George Woods. George wanted his own man, a top economist; and he never asked the top people then in the Fund, such as Frank Southard, Deputy Managing Director, what they thought of Irving. In fact Irving was at least as unpopular in the Fund as he came to be in the Bank. He came in as Mr. Woods' white-haired boy and spent much of his time developing a Supplementary Finance Scheme which almost everybody else in the Bank was against, but Woods had to support it because it was Irving's. If he had not supported it, George would look as though he was backing down on the importance of Irving.

I don't know that Irving introduced as much academic research as Hollis did, and Irving was primarily interested in his position. He was the economic advisor -- with a capital T. Any memorandum that was circulated that didn't have a capital T, he immediately insisted be withdrawn, because he was simply not going to be an economic advisor. He was going to be THE Economic Advisor to the President.

OLIVER: Well, do you happen to recall how studies were initiated in those days? I think this was the period, for example, when a great deal more data began to be gathered about the various countries. I have seen in the Columbia University Library two semi-confidential files, dated 1967, which, page after page, had been gathered in economic statistics. I assume that there must have been some discussion by the senior staff or in the President's Council which was the reason why these data were sought?

DEMUTH: When the bank started out, I remember, we made our first loan, our first or second loan, to France and their creditworthiness was

based on an opinion by a bank mission that the French had every intention to live up to their obligations and a willingness to repay and that meant that they had creditworthiness. That was the kind of economic analysis that was being done.

Then we sent out a number of missions which were really just get acquainted missions. We went to countries for a few days. We got to know them a little bit, who the people were, but, gradually, and I can't give you a time frame, we got into the kind of economic analysis that was really necessary: the economic situation of the country, the amount of debt it had, the amount of debt that was public, its foreign exchange reserves, etc. I would guess that Irving gave a real push to that.

One of my difficulties with the Bank now is to see how greatly it has expanded. We've known about client countries for the last 10 or 15 years. We send missions out every year. We know more about them than we ever have known before. We're not getting new members in any substantial number. Why, therefore, so many additional members of the Bank's staff? We ought to be able to analyze the economic prospects of proposed borrowers much more easily and with a much firmer economic base than we ever did in the past.

OLIVER: I have one more question to ask about economics, but it has slipped my mind. Referring to the occasion when the Technical Assistance Department which Woods suggested that he would like to have and would like to have you become head of, but was rejected by you. Can you add to that? Was there some difficulty between you and Woods?

DEMUTH: Oh, I don't think so. I think Woods was trying to build me up at that point, and the way he was going about it seemed to me from the Bank's standpoint to be a very substantial error. My loyalty was not to my position in the Bank, but to the way the Bank was trying to operate. To strengthen the Bank as an institution, I recommended that he not go ahead, and he didn't go ahead. But I didn't ever have any real fights with Woods, as I can remember. There were a number of things he wanted to do -- like agricultural lending and educational lending, relationships with FAO and UNESCO -- I helped him carry out, and I think he was grateful.

OLIVER: I do remember the other question I wanted to ask about economics. I think on page 25 you talk about the increase of loan commitments in the McNamara years, and it seems to be related to the planning work being done by Chenery -- the quantitative model-building analysis. Do you have a feeling that some projects were pushed before they were ready simply because there had been a five-year program laid out in the Economics Department?

DEMUTH: I don't know if it was laid out in the Economics Department. I know there was a program for each country, and there is no doubt about the fact that a number of project loans went through before the project was ready in the opinion of the project officer that was handling it. I had a number of them coming up to me and saying, "The fiscal year is ending and I've been given instructions: we are going to get that loan through."

Of course, this reduced the Bank's leverage in trying to put



conditions on loans. Yet I have little doubt that the five-year programs were adhered to without too much regard to the readiness of the projects to be carried out.

OLIVER: How does that jibe with your earlier statements that the Bank staff had become larger than necessary? Is it possible that a larger staff is needed to do the additional work to get the projects ready on time, so that they can fit in with the way the program was being designed and scheduled?

DEMUTH: No. You know in every organization there is a tendency to want to expand. Beyond that, McNamara had a desire to go into new activities so that at his annual meeting speech he could point out that the Bank is now going into population control, it's now going into tourism. (I'm not sure that tourism was something -- no it wasn't something he put into effect.) Almost every year for the first three years, he had a new type of project --- health projects, water projects, which should have been financed from the beginning; and so they frequently justified increasing the Bank's staff because they were going into more types of projects. Nobody seemed to stop and ask the question, "Why are we going into more types of projects when we could lend at least as much money for the traditional types of projects. That's what the countries wanted; they wanted money. We could have given them technical assistance in the other fields. There was no real reason to build up all these new activities for that reason. The development center, the modelling business, needed new people. All the non-operational research that was going on needed new people.

OLIVER: I can't tell now if you are talking primarily about the McNamara years.

DEMUTH: I guess I am. I think I am talking about the McNamara years. OLIVER: What sort of ideas do you recall that Mr. Woods had when he came to Washington? Did he also want to expand the Bank, increase the variety of projects?

DEMUTH: Well, I think he wanted to get the Bank into some fields I think we had erroneously stayed out of. One was -- well, crops; agricultural production. We had done a lot of infrastructure work that helped agriculture in terms of feeder roads, farm-to-market roads, large irrigation projects, but we hadn't done things that were directly related to increasing crop production. We had never engaged in financing agriculture research. Woods put a much greater emphasis on that, and that was right from the standpoint of the development of the Bank's client countries.

He got us into education. Why education had previously been out of bounds, I never understood. He was sort of limited there because as a member of a foundation, or maybe it was as a trustee of a university, he saw the way universities, when they received money for one purpose, just reallocated their budgets so that in effect the money was not put into a new School of Legal Studies but was put into something quite different. They moved something that was in the budget to something else. Well, this is true of almost every field.

George translated that into a prohibition against the Bank financing higher education. We concentrated on secondary education,

the theory being that primary education had political support of the country and didn't need the extra support of the Bank while secondary education was being neglected.

OLIVER: Did he get the Bank into education? or was there already ferment in the Bank to do work in education?

DEMUTH: There was certainly some pressure in the Bank to do it.

OLIVER: Can you comment on the Grand Assize idea expressed first in the famous speech in Stockholm? Was that his idea to start with?

DEMUTH: I don't know about that. I don't know if that was his idea or William Clark's idea. This was to build up support for additional development assistance. I think it didn't succeed. I have read something that William Clark said about his great disappointment at the Bank's reaction to the report. Yet what it proposed that the Bank should do was really not much different from what the Bank had been doing up to that point, except for a few gimmicks which many of us in the Bank didn't like.

OLIVER: Do you know whether William Clark was a close friend of Barbara Ward?

DEMUTH: Oh yes, a very close friend.

OLIVER: So probably George Woods met William Clark through Barbara Ward in the first place?

DEMUTH: That I really don't know. Barbara managed to get to know each president of the Bank and impress each president of the Bank. She was a very impressive lady.

OLIVER: Can you comment on what I would call a take over by Mr. Clark

after he came to the Bank of the department that you had managed?

You say on page 23, after he became Director of Information, he eventually got to the point where he was heading the whole department. I take it this is now the External Relations Department.

DEMUTH: Yes, but he didn't have that activity when he first came.

What happened was that my department was asked by George to take over the Information Department after Harold Graves was removed as Director of Information. I'm not an information person. I felt totally incompetent trying to run the public relations of the Bank. I saw as my function basically to find a successor to Harold and then let it go on its own except overall supervision. I did succeed in getting William into the Bank. That was no great trick, because William was trying to get into the Bank. The members of the Information Department were very happy to have him come to the Bank, because they regarded him as a very effective spokesman. When he came to the Bank, the Information Department was still under my general supervision, which I hardly exercised at all after William arrived because it was unnecessary. William came to me not too long after he was at the Bank and said, "I really would like to report to McNamara directly instead of through you. Do you have any objection?" and I said, "No. I don't see any reason why you shouldn't." So he took back the right of the Director of Information to have direct access to the President, but he didn't have anything to do with the rest of my responsibilities until after I left the Bank, and then they put both the responsibilities of my department and the Information Department under Clark.

OLIVER: Would you care to say why you decided to leave the Bank?

DEMUTH: No, I wouldn't. That has nothing to do with Woods.

OLIVER: One last question about your interview with Asher. Toward the end you suggest that commercial banks to some extent have loaned too much in some parts of the world because of their association with the Bank. Can you say more about that?

DEMUTH: I can't document that. I know that the commercial banks relied on the World Bank very heavily, more and more heavily as the time went on, in determining whether developing countries were creditworthy. And McNamara's expansive view -- let me say that that view was always defended by Bank economists on the ground that there was going to be continuing inflation, and, therefore, the burden of repayment was never going to be anything like the real value of what was lent, and, therefore, you didn't have to worry about creditworthiness. It never seemed to me to be a very sound way in which international lending should be done, but I think the fact that the Bank was then lending very, very large amounts made commercial banks feel much more confident in lending.

OLIVER: Are there any questions that I should have asked you about the Woods years that I haven't asked.

DEMUTH: No, I don't think so. I went over with Bob Asher before my interview with him my recollections of those years, so he asked the questions that I thought ought to be asked, and you have the answers available to you.

OLIVER: I appreciate very much your time today. You have been a very

great help to me in adding to the record.

DEMUTH: Well, I'll be interested to see what you write.