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A CONVERSATION WITH GERALD ALTER

WASHINGTON, D.C.

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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OLIVER: Would you say a bit about how you came to the Bank and what positions you held in the years before George Woods became President?

ALTER: I came to the Bank in 1951 after 7 or 8 years in various U. S. government agencies. I joined the Economics Staff of the Bank working under Leonard Rist, primarily with Paul Rosenstein-Rodan and John Adler. I shifted to the Western Hemisphere Department of the Bank and joined their economic group after having spent several years on general studies.

Early in my career in the Western Hemisphere Department, I was heavily involved in the review and preparation of country economic reports, the fairly routine country economic reports that were being produced at that time. These focused pretty much on the creditworthiness of the country concerned with some effort to identify major sector problems and to project the future rate of growth and the balance-of-payments outlook for the country and the area.

Gradually, we became more involved on the economic side in the preparation of more ambitious reports that sought to have a more direct influence on other aspects of Bank policy, not only the question: Was the country creditworthy for Bank loans? but also: Whether their investment program was adequate? Whether their domestic savings could

be materially improved? What specific actions needed to be taken to permit the more effective utilization of capital? Increasingly, we got into what might be called "Sector Analysis."

During this period, in the case of several countries, we mounted very large missions which consisted of thirteen, fourteen people drawn both from inside the Bank, including our Projects Department staff, and outside experts to look into the major investment areas in the economy. From this we tried to analyze whatever existed in the way of an investment program, particularly in the public sector in the country concerned; and, in some instances, during the course of the mission, we worked closely with the country in putting together the elements of a country investment program, again particularly for the public sector, and a financing plan which would permit the execution of a program of proscribed size with measures to be adopted to increase public savings and to mobilize the internal capital needed to carry out the programs.

OLIVER: May I interrupt to ask: We are talking about the time period of roughly '52 to '60 aren't we?

ALTER: We're talking of the period of up to 1963, '64, I'm particularly thinking of the work that was done in the period from, let's say, '58 to '63.

OLIVER: And these country studies, which were related to overall programs -- investment, savings, and that sort of thing -- were done by economists within Area Departments per se were they not?

ALTER: That's correct.

OLIVER: How was this work related to project planning per se?

ALTER: We were trying during this period to enlist the support of the Projects Department staff in this work, and they participated in these missions under the leadership usually, of an Area Department economist. I well recall missions that we took to Mexico, Colombia, Chile, and other countries in the area where fairly large numbers of Projects Department staff, who had worked on the specific projects in the sector where the Bank had been lending, were members of the mission and contributed to the formulation, conclusions and recommendations of the final report. In that report, we frequently identified projects in the investment program at an early stage which could later be the vehicles for Bank loans; and we tried to put the identification of such projects into a broader framework of trying to select projects where we thought it would be easier for the Bank to exercise a constructive policy influence by agreeing to lend for certain types of projects in a key sector where policy performance was particularly in need of corrective action.

OLIVER: Were there any attempts to order projects so that project A should come first and project B should come second and that sort of thing?

ALTER: We were not terribly successful, I believe, in ranking projects in terms of priorities. We found, particularly when you cut across sectors, it is extremely difficult to order priorities. Most projects which cross sectors are complementary in nature and are not really substitutes for one another within individual sectors, like within the Power Sector or the Transport Sector. We did do some ordering of

projects and selected those which we thought were better for the government to go ahead on and tried to persuade the government, or worked with the government, to develop a sense of priorities within that particular sector. At the same time, we considered among ourselves what the Bank could most suitably do to improve the policy performance or to give support to those elements in the government which were in favor of improvements and policy performance on a sector basis.

OLIVER: Was there an attempt to predict in advance for individual projects the effect of the project on the overall Gross National Product of the country or the exports of the country?

ALTER: In that type of mission, very little effort was made on specific projects: It just wasn't feasible to do the amount of intensive work that that required, but it frequently led to such work being done subsequently. Particularly on the very large projects, which on first appearances seemed to be suitable but were still in need of a great deal of project preparation and project appraisal, we would make preliminary determinations; but it wasn't feasible in missions of this type, unless the project was already at an advanced stage of consideration, to look at the quantitative cost-benefit ratio or something like that.

OLIVER: Was it possible in these early country studies to identify bottlenecks, let's say by sectors? Let me put the question another way. Did it appear early on, before the Bank got into making loans for education, for example, that education might be a sector which was a

bottleneck and needed consideration in an overall country analysis?

ALTER: We had several missions (I remember very well one or two of them in which I, myself, participated) where we attempted to pin down whether increasing effort in the way of primary or secondary technical education seemed to be an important ingredient of the country's development effort. Duncan Ballentine, who later became Director of the Education Department in the Bank, was a member of one of the missions that I headed, for example, and he reviewed very thoroughly the Education Sector in that particular country. We had education experts on virtually every one of the large missions that I mentioned before.

OLIVER: Even before the Bank began making loans for education?

ALTER: That is correct.

OLIVER: Is that how some of the various sectors in the Project Department came to be discovered so to speak?

ALTER: No, I think it was. . . . This was one of the many influences that were brought to bear on the diversification of interests in the Projects Department. There was a lot of feeling in the Bank on general studies of the education problem -- studies done by Professor Ted Shultz, for example, at Chicago that education investment was very, very important. I think there were many influences that were brought to bear on the management of the Bank over those years which finally led to the Bank's decision to go into the education field itself. We always recognized education to be an important sector. It wasn't only during President Woods' term that this occurred. The question was

whether the Bank could make a useful contribution by activities in the education sector and there was some resistance to Woods.

OLIVER: I take it that tourism, for example, was a sector that was identified and the Bank was associated with for awhile and was later dropped, so that a sector might be identified and the Bank might be associated with it and then it might be dropped. It might be determined that it was not the kind of sector in which the Bank should participate.

When you first started working in the Bank, there was, under Leonard Rist, a Research or Economics Department which sort of disappeared with the '52 reorganization and then, I think, was made an important part of the Bank again subsequently.

ALTER: No, it didn't disappear; the Economics Department continued with changes in name only. The importance of the department was greatly augmented later on, particularly under McNamara -- certainly in terms of the number of staff, and the responsibilities and so forth. Initially, when I was there, the economics staff was directly involved in reviewing country economic work and doing a certain amount of research on topics like fiscal policy, savings policy -- questions of this type, even some sector analysis. It wasn't done on the scale that it was later on, but it did not drop out of existence during this period.

OLIVER: And the questions being asked in the Economics Department were essentially the same as later?

ALTER: Yes. I remember quite well during the period that I was there

we did quite a bit of work on shadow pricing and project analysis. That work has continued throughout the Bank's history. There are many other topics that later became prominent that people may think started later, but they were already present in the earlier stages and were just given changing emphasis.

OLIVER: Do you remember, after you were an economist in the Western Hemisphere Department, who remained in the Economics Department?

ALTER: Well, early in the game, there were several who remained, but there was a very rapid movement from that department to other parts of the Bank. Very few people stayed 25 years. Most of them moved into other departments.

OLIVER: That was my impression: that most of the economists became associated with Area Departments or possibly with Projects.

ALTER: The people, yes; but the function continued, and new people took their places.

OLIVER: It is my impression that there was a quite large expansion of the Economics Department shortly after George Woods became President in '63. He brought Irving Friedman over from the International Monetary Fund. Could you say a bit about that?

ALTER: I probably am less familiar with what happened in the Economics Department during that period, because I became Director of the Western Hemisphere Department and really lost the close touch that I previously had had with the non-Western-Hemisphere related country economic work. I did, of course, continue to be very closely involved in the country economic work in the Western Hemisphere Department.

OLIVER: In those years, when you were head of the Western Hemisphere Department, did you think of there being a distinction between the economic analysis that was being done in your own department by economists who were concerned with specific countries in the Western Hemisphere, on the one hand, and the economists who were associated with the more general Economics Department and the kind of work they were doing, on the other hand?

ALTER: Yes, there was a very definite difference between the work that was being done, but the Economics Department people were still involved in reviewing the work that was being done in the Area Department. Of course we had many contacts, but they were mainly by the economists in our department with the economists in the Economics Department on the analysis that was contained in the country economics reports. The approach that I was taking as the Director of the Western Hemisphere Department -- the analyses of the countries, and trying to draw conclusions from those analyses that were operationally significant for the Western Hemisphere Department -- was generally agreed to by the people in the Economics Department, particularly by Dr. Friedman. I had virtually no conflict; in fact, I received a great deal of personal support from him in what we were trying to accomplish with the economic work in the Western Hemisphere Department.

OLIVER: I think that around '64 there was instituted what was called the Economics Committee which would look at projects that were being proposed before they got to the Loan Committee, so that economists who were interested could make comments about the possible effect of the

project on the. . . .

ALTER: I don't believe that is correct. My recollection is that the Economics Committee, when it was formally established. . . . We had an economics group with departmental representation in the old Economics Department right from the very beginning. I can't remember now what it was called. Leonard Rist chaired it. Later on there was a more formal committee established, notes were kept of the meetings and all the rest, but they didn't have anything to do, as I recall, with project analysis as such. They had much more to do with the analysis of the country economic reports that were being produced and increasingly with the operational implications of the country economic reports.

OLIVER: I don't know what a country economic report is quite. Was it the same kind of report as the earlier big reports that you were involved in?

ALTER: Well, some of them were of that nature. Some of them were more modest, but they were on the country concerned rather than on individual projects that were part of the Bank's immediate lending program. The vehicle for reviewing the projects that were to come up for Bank lending was another channel in which the Economic Committee as such was not involved, as I recall.

OLIVER: Did you yourself sit in on some of the meetings of the Economic Committee?

ALTER: I think I attended a few of them, but usually it was the chief economist of the department who represented the department at those meetings.

OLIVER: Who were the various people who were the chief economists?

ALTER: Well, at one stage (I am trying to remember now) Bob DeVries was the chief economist in our department. Mervin Weiner, was a chief economist.

OLIVER: It really doesn't matter. I can look them up.

ALTER: Mervin later became the head of the review -- what is it called now? He retired this last year. He moved on to other departments in the Bank. We had a very good group of economists in the Western Hemisphere Department in this period. Many of them have done very well, I think deservedly so.

OLIVER: I think you said earlier that the real expansion of the economic analysis began after Mr. McNamara became President. Could you say a bit more about that?

ALTER: What I said was that the non-country type of economic work. . . . I really didn't mean the country oriented economic work as such. The Bank became much more involved in the study of general problems of economic development with McNamara's arrival. He had a special interest in this; the Bank's non-country directly related work expanded many fold.

OLIVER: One of the things that apparently changed in an administration sense in '63-'64 was that the President began to be more reliant on what he called his senior staff. Minutes began to be kept of the senior staff meetings. Did that include the heads of the various area departments? Were you a member of the senior staff meetings?

ALTER: Yes, as far as I recall now. I'm not too clear on this, but, as

I recall, at some period during his regime, we had meetings with him. To be perfectly frank with you, none of these meetings, in my judgement, was terribly productive. The meetings that really counted in the Bank for an operational person in my position were the meetings of the Staff-Loan Committee chaired by Burke Knapp: that's where the discussion of loans and conditions for loans were thrashed out. Mr. Woods relied to a very great extent on Burke Knapp for recommendations on these items, and Burke worked very closely with each of the area departments on these matters. In such fields as administration, general administration of the Bank, etc, these other meetings were of some importance, but when it came to the operational decisions of the Bank in the lending field. . . . Mr. Woods, during much of this period, was gravely concerned with obtaining an adequate volume of resources for the Bank, particularly for IDA, and he focussed on those issues much more, I think, than on the day-to-day lending operations of the Bank.

OLIVER: I remember an interview I had with Eugene Black back in 1961 in which he remarked that the Bank had never had a shortage of funds in the sense that it was the shortage of funds that prevented it from making more loans. His emphasis was on his concern for creditworthiness, absorptive capacity and that sort of thing. But I gather that by '65 or '66, something had changed in the way the Bank was looking at its functions, so that a shortage of funds did begin to be a matter of some consequence.

ALTER: I think that is correct. There was a definite change in the

perception. Of course, one never knows to be sure whether policies are adopted which make the policies and project conditions, the country conditions, etc, which obviate the shortage, or whether there is really no shortage. It all depends on what standards you adopt in analyzing in country economic conditions and the merit of particular projects. I think the Bank was fairly consistent in its approach; there was no dramatic shift, but I think the conditions in the outside world changed during this period. Some large countries seemed to be increasingly able to absorb assistance, particularly if they could get it on easy terms, and that was why the increase of IDA resources was a matter on which Woods focussed much of his attention. He was particularly concerned that the resources of IDA should be increased sufficiently so as to permit the Bank as such to meet some of these increased capital requirements.

This was not so true of the Western Hemisphere Department. There were quite substantial differences in views on the creditworthiness of a country. The most notable example, perhaps, of this was Brazil. For several years the Bank really had been lending virtually nothing to Brazil, or very token amounts. Just about the time that Woods came on the scene, Brazilian economic policy underwent a shift. A new government came into power, to be sure a military government, which selected for key positions people whose policies were much more in line with the policy views that existed in the Bank. This gave an impetus to Bank lending to Brazil at about that time.

OLIVER: It is pretty obvious, I guess, that one of the factors

influencing the creditworthiness of any country is its political system, its political stability, and the personalities of persons in political power.

ALTER: Well, the Bank, as you know, is precluded in its Articles of Agreement from making basic lending decisions on political grounds as such, but, in deciding on loans, it is not precluded from taking into account what the policies of the country are going to be. There is an intimate inter-relationship between the politics and economics of a country. Not in a simple fashion to be sure. In the Western Hemisphere, we've had many military governments which started well and soon failed miserably, and vice versa. We've had democratically elected governments who seem to have the right policies, or the wrong policies, and adjusted to changing conditions; and one of the key issues in the Western Hemisphere Department has been how to be responsive in a legitimate fashion to economic policy changes which reflected political conditions which it was extremely difficult in any case to forecast.

OLIVER: I want to ask you, in a moment, what major initiatives you feel Mr. Woods brought to the Bank. Before I ask that, however, I wonder if I might ask if you care to comment about the creditworthiness of the Western Hemisphere in the recent past. Since you have left the Bank, we have heard a lot about

ALTER: Well, to tell you the truth, since I have left the Bank, I have given virtually no thought, or very little thought, to the countries of the Western Hemisphere. I read the papers and I have discussions from

time to time with former colleagues, but I really have turned my attention to other subjects; I have not tried to keep up to date on what has been going on. Obviously, I am aware of the fact that, since I left the position of Regional Vice President in 1975, the countries of the Western Hemisphere have assumed a monumental volume of additional debt, and they have gotten into very serious difficulties in servicing that debt, not simply because it increased so much, but also because the whole world economic situation changed, commodity prices fell, interest rates rose drastically, and economic policies -- borrowing policies, on their part, and lending policies on the part of the commercial banks in the advanced countries -- underwent a very substantial modification. But I really can't give you much of a reasoned analysis

OLIVER: I was just trying to get at the proposition, which it seems to me is implied by your answer, that the creditworthiness of a country is not a function of just that country all by itself; it's a function of things going on in the rest of the world. A country might be run in a way which, under one circumstance, might be satisfactory from a creditworthiness point of view while the same policies at a different time in the world might not be.

ALTER: We used to say in the earlier days in the Bank that the Bank creditworthiness analysis excluded the possibility of a major world depression lasting for any significant period of time. If you once assume such a world depression which would last for a long period of time, a whole basic assumption of creditworthiness analysis would be so

modified that you would be able to do very little. I gather the Bank did not emphasize that point as much as in the later years of my association with it, and certainly I am sure that it is not emphasizing it now, because it still wants to receive service on the debt that it has outstanding. It is obligated, of course, to perform under its own obligations no matter what the state of the world.

OLIVER: But going back to '66 or '67, a time when the President of the Bank was worried about the availability of funds, particularly IDA funds, creditworthiness didn't seem to be a major obstacle to making more loans across the Board, nor was absorptive capacity a major obstacle.

ALTER: No. Well, I would say absorptive capacity, particularly in the newly merging countries in Africa was, and continues to be, an obstacle.

OLIVER: Not so much in Latin America?

ALTER: Not so much in Latin America. There were some countries in Latin America where a major emphasis had to be placed on the improvement of managerial capacity, identification and preparation of projects, development of an entrepreneurial group in the private sector; but these problems were not over-riding as they were in some other countries.

OLIVER: Or as they had been in the early periods, the 50's?

ALTER: That's right. You have to distinguish between project preparation activity and meeting the Bank's requirements for project appraisal, institutional improvement, and other things. These were and

continue to be problems in many countries in Latin America -- to a lesser extent to be sure; and, in many of the traditional sectors, there has been a great improvement in the government's capacity to identify, prepare and to execute projects. With the political instability that has prevailed, there has been a rise and fall of many good organizations, so that a constant job of reconstruction and regeneration needs to take place. It is not progress in one smooth path.

OLIVER: Would it be fair to say that one of the many important contributions the Bank has made as an institution is to make its member governments more aware of the need for good project analysis, preparation and management?

ALTER: Yes, I think that is certainly true.

OLIVER: Let me come back to this earlier issue. You said, if I understood you, that you thought the senior staff meetings were not terribly important in terms of identifying major new areas in which the Bank might move. . . .

ALTER: No, No, forgive me for interrupting. What I was saying was that on individual loans they were not important. There were some interesting discussions, as I recall, on broader questions such as getting into education, or doing more in the field, or the conditions under which we lend for development finance companies: issues of that type. I can't remember precisely to what extent these meetings were held with Woods and to what extent they were held with Knapp. There were general discussions that were extremely important and useful. As

I say, I think that Woods personally devoted much more of his attention to the general administration of the Bank and the mobilization of the resources for the Bank, the Bank and IDA together, and IFC as well. He had a very great interest, as you know, in giving financial support to private sector activity. I am sure he focussed a lot of his attention in that area as well.

OLIVER: Did you have a feeling that he was even more interested in private sector activity than President Black had been?

ALTER: No, I didn't have that feeling, but I think he had a very substantial interest.

OLIVER: Was there any surprise in the Bank staff when a person straight from Wall Street, from the First Boston Corporation, became President of the Bank?

ALTER: Well, he had had a lot of experience with the Bank prior to joining, particularly on private development financing. Many of the people in the Bank knew him from his work on the Development Finance Companies. He was the head of Bank missions. I had never worked with him; I didn't know him at all, but many Bank people had, so they were able to tell others about his good qualities.

OLIVER: Would you care to comment on his rapport with the staff?

ALTER: Well I can't really give you much of a comment. To me, personally, he was a very, very nice person. When he rapped my knuckles, he rapped them rather nicely, complimentarily. But the extent of my personal contact with Woods was more limited than one might believe. I dealt mainly with Knapp. I really didn't have broad

and enduring contacts with him. His reputation among the Bank staff that I knew was that he was a very nice guy, that he focussed on the things that he thought were important, and they were not necessarily the things that you were working on. He was much more involved, I might say, in areas other than Latin America. He became interested in certain features of our program, and we could discuss some of those if you wanted to.

Let me go back for a moment to the interrelationship between the economic work and the operational work of the Bank in the Western Hemisphere. I think, in a way, we were pioneers in the Western Hemisphere Department. I think I was the first professional economist working in the Bank as an economist who became an Area Department head. There were a lot of professional economists in operational positions in the Bank, but they hadn't worked in the way I had worked on these country economic things. I had an opportunity, I think, to apply some of the ideas that I developed over the course of my economics work in operational work. We searched, in '64-'68, for ways to make the economics work more relevant in the operating decisions on the lending side, to apply the ideas that I had developed -- I and others in the department, various economists and division chiefs, many of whom had also been economists. We developed an approach towards lending which progressively became more prevalent throughout the Bank, particularly in the McNamara years when formalized lending programs began to be formulated. At an early stage internally, we were moving in that direction. We were among the first to come up with the graduated

response idea: that we would relate the volume of lending to the country's economic performance. We couldn't carry that very far in fact, but at least we tried to seek out where we could accomplish something by additional lending and having a dialogue with the country's officials on particular policy problems (transport, finance, public utilities, education, whatever the field it may be) and where the country's responsiveness to improving its policy appeared to be improving and where we saw an opportunity to accomplish something over and above the mere transfer of external resources as such.

OLIVER: Is this something like what in the Fund is called "Conditionality."

ALTER: That's right. It is very closely related to that. It is not formalized to the same extent it is in the Fund. I think it happened in my department for reasons not actually of my choosing but because of the external conditions. We entered into a very close collaboration with the Fund, particularly on exchange-rate matters. There were countries during this period where the exchange rate being out of line was a critical defect in economic policy. These were countries which had fairly high rates of inflation. Many of them -- not all of them, but many of them -- had very high rates of inflation with fixed exchange rates or very slowly moving exchange-rates. They just couldn't bring their balance-of-payments under control. Their capacity for administering import controls on any rational basis was very poor. Exports were being sacrificed in many cases. Some of them tried export subsidies, but they were so open to abuse that it was very difficult

given the political pressures. We were working very closely with the Fund during much of this period, getting countries to adopt more appropriate exchange-rate policies as well as policies in the field of public finance -- with varying degrees of success, to be sure, but there was some progress.

The adoption in Brazil of a flexible exchange-rate-policy would have been impossible, I think, for the Bank. I am not saying in all of these cases It is well brought out in the Mason and Asher book: you are dealing with public officials in the countries who are thinking the same way, and you are helping them overcome some of the obstacles of putting into effect these policies. I think it would be impossible in Brazil then and even today to undertake any significant amount of lending if they had continued with the kind of economic policies that they had prior to 1963-1964.

OLIVER: It sounds like there is a presumption that the country that uses exchange controls and has an overvalued currency, perhaps import controls also, is a country where it is very difficult to tell whether a project illustrates that the money is being usefully used or not.

ALTER: I think that is certainly one aspect of it. We developed in the Bank over a period of time a system of shadow pricing of foreign exchange to help correct that, but in many areas of activity you have to go beyond shadow pricing. You have to have changes in actual policies in order to have reasonable prospects in macro-economic terms for the balance-of-payments and economic growth of the country. You get a distorted economy. Its resources are encouraged to flow into the

fields which are not internationally traded goods and services; the internationally traded goods and services sector becomes sacrificed; and it is extremely difficult to have either sustained economic growth or reasonable prospects in the balance-of-payments.

OLIVER: Well, I take it that in '67, '68, '69, this period, more and more of this kind of analysis was being done both by the economists in the Area Departments and also by economists in the Economics Department.

ALTER: That's very correct.

OLIVER: So that they were complementing each other.

ALTER: Exactly. And that continued; I mean I don't think it stopped then.

OLIVER: It continued to grow, but this is the period of time, the late '60s, when this kind of cooperative economic analysis of broad-gauged economic issues was becoming increasingly important.

ALTER: Yes. And where some hope was returning that something could be done about it. In earlier periods, the countries themselves were not as convinced that a change in policy was in order but important policy groups within the countries became concerned that the path they were on needed to be changed.

Let's go back to the subject of general interrelationships between economic work and the policy decisions of countries.

One of the fields in which I got into a bit of a controversy with George Woods was a result of the economic work I had been doing and the analysis of the investment programs of the Latin American countries:

the availability of complementary domestic finance, the need for relatively modest debt service and other requirements in those days. One of the things we used to do was to examine the foreign-exchange content of investment programs, and, in the Latin American area, the tradition was pretty much not to finance the local currency expenditures of individual projects. In some of the poorer countries, the Bank had few compunctions about local currency financing, but there was a general feeling before I went to the Western Hemisphere Department that local currency financing wasn't really justified in Latin America.

I arrived at the conclusion that it would make good sense for the Bank to do some financing of local currency expenditures in some of these countries, and I tried through the economic work that we did, particularly the examination of total investment programs, to provide an economic rationale for the Bank's doing some things. After becoming department head, I came up with proposals for local currency financing which I thought was justified, but George Woods became increasingly impatient with my attempts in this area. I don't know whether it had to do with his relations with the U. S. Government or what. I don't think he felt intellectually that much concerned about it, but he reprimanded me a couple of times for coming back so frequently with these proposals.

OLIVER: Was he in general against Bank financing of local currency requirements?

ALTER: Yes. I think he had a rather traditional point of view. I

think he recognized . . . I'm not too sure of his position. I really am not. I know that, as it was reflected in his reaction to my recommendation, he was opposed, but I don't know how generalized this was.

In Latin America, we had a competing institution, the Inter-American Development Bank, which, particularly through its soft-loan window, was financing quite a bit of local currency. They weren't very demanding in terms of policy response, and I developed the idea that, particularly in those countries where we were getting a good response on our urgings to increase domestic public saving and where, even with this increased effort, the overall magnitudes concerned justified some local currency expenditures, the Bank should be more forthcoming. That was the general idea behind it, and I wanted to be able explicitly to offer this in discussions.

This is particularly true, as I recall, in such countries as Mexico and, I think, also Brazil -- the more developed of the countries concerned. It was not just to purchase domestically under international competitive bidding -- that was already permitted, but to go beyond that. We were prepared to finance the estimated foreign-exchange component of local procurement. I wanted to go beyond that to finance local currency expenditures in other fields, such as education, where the foreign-exchange component was particularly low. I thought that some of our proposals were well formulated and well justified. That was in the earlier years.

OLIVER: Did Woods explain specifically what his objection was?

ALTER: Not really.

OLIVER: Did you have a feeling he thought that it made the loan more risky in some sense?

ALTER: No, No. Frankly (this is pure guesswork on my part) I had a feeling that he had opposition from certain Board members who were important for him in mobilizing capital for IDA and so forth, and this was the reason. He may have believed that of them more himself than I know. I'm not sure.

OLIVER: Keynes in his discussions about the original Bank proposals before Bretton Woods made a big issue of making it possible for the Bank to take account of the multiplier effects on domestic income of Bank financed projects and the probable necessity for the Bank to make loans to help cover additional foreign exchange required because of the multiplier effect.

ALTER: The so called impact loans.

OLIVER: The Bank does more of that today, I think, does it not?

ALTER: Well, they don't call it that. They don't usually call it that. The Bank has become . . . I'm not too sure about the last five or six years.

After I left the Vice Presidency of the Western Hemisphere Department, I became an assistant to Burke Knapp. Part of my job was to do some policy studies on local expenditure financing: What is guiding and what should guide? I actually prepared some operational memoranda on this subject. But my impression was that we were still very restrictive on local expenditures in the better developed of the

less developed countries. In the very poor countries in Africa, we were quite liberal, but in respect to the more developed countries, we were not.

Going back to the kind of rationale that we were using in the early '60s, or mid '60s, for financing local expenditures in Latin America, we now have even more need to service a very large debt. We need government revenues as well as foreign exchange, to service that debt, so the rationale for financing local expenditures, if you want to make a significant contribution to total capital requirements, is even more evident today than it was then.

The Bank has gotten into a somewhat greater degree in non-project lending, and that helps solve the problem. There are alternate ways of meeting foreign-financing requirements. I, myself, see some advantages of going the project route, but, through these circumstances, I also see the other arguments as well. It depends on

OLIVER: You may recall that Paul Rosenstein-Rodan had some arguments with management on that subject.

ALTER: On impact loans particularly.

OLIVER: You're mentioning in passing that Woods may have been influenced by an Executive Director, or several Executive Directors, reminds me that I have heard that, during the last half of George Woods' career as President, the Directors took a more forceful stand about various issues than they had done before. There were more meetings of the Directors and that sort of thing. Can you comment?

ALTER: I just don't remember that period, to tell the truth. What you

say is not inconsistent with my own memory, but I cannot illuminate the thing in terms of specifics.

OLIVER: Well, it has been suggested in various books that one of the disadvantages to the Bank of IDA has been that it opened the door for governments, who were asked to make IDA replenishment funds available, to begin to raise essentially political questions about the Bank's relationships. So I take it that the problem continues to this day?

ALTER: I would think so.

OLIVER: It probably began during the Woods years -- the replenishment political problem.

ALTER: When you are pressing governments for increasing appropriations -- for access to capital markets, but particularly for appropriations, you are in a much weaker position on these other matters, and you have to make concessions to their needs in order to persuade them to let you have access to their financial resources -- particularly if a country is having severe budgetary problems of its own, or there is a lot of internal opposition to external aid, which most of the countries, particularly the United States, had throughout the period.

OLIVER: I should know this, but I don't. Have any Latin American countries been eligible for IDA funds?

ALTER: Well, in the very early days, there were a couple of countries that were among the first recipients of IDA. Frankly, I do not know what the situation is today. I don't know which Latin American countries are receiving IDA assistance. My general answer to your question is: relatively few; the bulk of IDA resources have gone to

the poor countries of Asia and Africa, very little to Latin America.

OLIVER: You were Vice President of the Bank for Latin America. Did you ever have the feeling that project loans -- program loans for that matter -- which in your view ought to have been made were held back because of the Bank's shift in interest towards Southeast Asia or some other area of the world?

ALTER: No, not really. With the establishment of the IDB and its soft loans, the Latin American countries did not put a great deal of pressure on the World Bank. There was some pressure; speeches were made at annual meetings, but they were much more interested in getting World Bank loans as such and were not pressing for IDA. On the World Bank side, we were trying to increase our lending activity in that period with a good policy response from the Latin American countries on some of these key things that I was talking about earlier: exchange-rate policy, public savings policy, institutional development, and pricing policies of public services. This was always a big issue in Latin America. We were trying to get increased Bank resources allocated for Latin America for this purpose, but there was not the formalized system of lending programs that developed later under McNamara. If I had a feeling, it was with respect to specific policies which may have led to a lower volume of lending that would otherwise have taken place. I never had a feeling that the mission of the Bank in the Western Hemisphere was being sacrificed to the interest of Africa or Asia or anything else. That was my own personal feeling.

OLIVER: The great period of commercial bank lending, which began in

large measure in '73 or '74 with the world oil crisis, affected Latin America, it seems to me, rather more than other nations in other areas of the world.

ALTER: That's quite right.

OLIVER: What is it about the Latin American economies that makes them susceptible to the high inflationary rates that some have experienced and to the need for outside funds if they are going to continue their development programs?

ALTER: Well, I think, if you take the big countries which are mainly commercial bank borrowers -- Brazil, Mexico, Argentina, Venezuela, to a lesser extent, Peru -- the first three of those countries are the countries which have, in a sense, the more active investment activities both in the private sector and in the public sector -- particularly, Mexico and Brazil; Argentina not so much, more in the public sector during that period. Military expenditures in Argentina were extremely important as well. This was a period -- as I say, my close association with the area really ended more or less in '75 and disappeared almost completely after '78, so that in a more recent period I can't really feel I have much insight or intuition, but the inflation problem that you asked about has been plaguing these people for years, particularly Argentina and Brazil -- not so much Mexico; Mexico is a more recent phenomena. There are many interpretations as to why this is the case.

To my own knowledge, many of the policy leaders in various periods were not convinced that domestic financing needed to be undertaken with conservative fiscal policy. That has changed substantially over the

years, but the policy orientation was wrong. In more recent years, it has been right. Every government tries to do something, but fails. Why do they fail? -- put the question that way. My own impression is that it fails primarily because the political systems of the countries are not equal to mount persistent austerity programs. It's damn difficult to do. Objectively, it's damn difficult to do.

OLIVER: It was not so different in this country in the '70s.

ALTER: It was damn difficult in the '70s. It took the Reagan administration, with all its misleading statements about the ability to reconcile, to put it across. I think it was really misleading the public; the reconciliation that they were going to achieve between bringing about the end of inflation. . . .

OLIVER: They may have misled themselves before. . . .

ALTER: That's very possible too. That's my own rather superficial interpretation of what happened. The more inflationary expectations get ingrained in the public mind, the harder it is to break them, and the more serious the sacrifices are that you have to have in order to correct it.

OLIVER: Italy is a country where indexing has been in existence for a long time, and they have had trouble breaking it. Israel is in even more trouble. Brazil

ALTER: That's right. During this period, we started to encourage more indexing in a country with persistent and strong inflationary expectations. That was another one of the policies.

OLIVER: Was this for income distribution reasons?

ALTER: Mainly, during this period, in order to protect the domestic finances of the country. We have to decide what indexing we are talking about. There is interest-rate indexing. There is exchange-rate indexing, flexible exchange rates, more frequent depreciations and larger depreciations, but still gradually rather than holding it at a fixed position for a long period. There is an indexing of public utility rates -- all of them on the sector side. A lot of the Bank's effort during this period in project lending was to get the countries to adopt policies which permitted, as the inflation continued and domestic costs rose, the prices of public services to be increased. The main argument from the macro-economic point of view was to protect the domestic savings originating in the public sector -- not to have large losses or to augment the profits. (Some of them start from a negative position to begin with.) In lending in Brazil, Argentina and Mexico, we stressed very heavily those elements on the project side -- the sector side. That's just an aside.

We could have taken the position: the Bank shouldn't lend until they licked inflation and make that a matter of overall policy. Instead, what we did (whether we were right or wrong, others can judge) was to say the Bank should be prepared to lend in particular sectors where we can get meaningful commitments to future policies so that at least in those sectors the inflation will not be accompanied by a great loss in the profits of public enterprises and government revenues, etc. We didn't stop there. We said there have to be improvements simultaneously in other sectors to permit the economy to grow, to

permit exports to be adequately promoted and imports to be adequately discouraged and domestic production to be adequately encouraged to substitute for imports. It fitted in with our attitude toward exchange rates and prices in public services, a policy of the Bank being prepared to live with inflation if certain preconditions were met.

OLIVER: Including the indexing of the prices of utilities?

ALTER: Yes.

OLIVER: I understand. Let me ask you a question about vice presidents. You were a vice president among many vice presidents. I think when Mr. Woods became President there was really only one Vice President.

ALTER: McNamara set up regional offices. He merged the Project and the Area Departments into Regional Departments and put a Regional Vice President in charge of project people as well as the countries.

OLIVER: Were the vice presidents in charge of the regions by and large formerly Area Department people, or formerly Project Department people?

ALTER: I can't remember the first one, but since then it has been both. They've had people who have been both Project Department people and Area Department people. Typically, I suspect, more Area Department, but I don't know.

OLIVER: Without going into great detail, because I suspect we could do another hour on this subject, I wonder if you could identify some of the major thrusts that you associate with the McNamara years at the Bank.

ALTER: Well, I think the major thrust was the overall increase --

that's the most significant thing. McNamara was firmly convinced that the Bank had become a much more important institution and that there was a need for a much expanded level of lending, and he focussed a lot of his personal attention on that. He wanted to build on the record of the Bank's standards. He felt, without sacrificing standards, without unduly sacrificing standards, that the Bank could play a much larger role, transfer resources on a more adequate scale, and influence countries to adopt proper development policies. The Bank could be more flexible in its approach towards lending in new fields, non-traditional fields. That was part of the broad picture of getting the Bank to be a more vital, important institution in the development field.

OLIVER: All this implies a combination, I should have thought, of three major factors: the funds available to the Bank must have increased; the creditworthiness of the countries, who might be borrowing, must have been judged to have improved; and the absorptive capacity of the countries must have been greater. Could all three of these be talked about in these terms?

ALTER: Well, I think that the answer to the question depends on whether you are referring to the Bank or IDA

OLIVER: Well, when I talk about the Bank, I include IDA.

ALTER: I think that IDA was really a question of getting additional resources. Woods tried to get additional resources, but he didn't succeed. He did get additional resources but not as much as he thought was justified. McNamara continued along the same path. I think the beginning was relatively successful, but it was not up to his expectations either.

On creditworthiness, I think that it's very difficult to discern a 180 degree turn in standards under McNamara. I think there were some modifications towards certain things, but they weren't dramatic. Determination to increase under a strong leadership gets results even if Woods wanted to expand but not to the extent that McNamara did. He really, really transformed the Bank and did a fantastic job in getting people to think in new terms, to be expansionist minded, but that's another story.

On the absorptive capacity side, I think that there was change. I think McNamara was much more willing to help countries that would learn by doing. I wasn't as much directly involved in this as some of my other area colleagues, people like Roger Chaufaunier, for example. He was a former colleague of mine in the Western Hemisphere Department who went into Africa and was a vice president. I think in many of those cases, and also in the Western Hemisphere to some extent, there was more of a willingness to work closely with a country in fields where we really doubted their capacity. What the hell, we'll do something: we'll provide for some technical assistance, we'll get Bank staff in the field to help those countries identify projects, help them to some extent through the use of consultants and others in the execution of projects and in the operation, get more involved in improving management. . . .

OLIVER: Was it to some extent a compressing time, that you simply put more people to work on doing project analysis and evaluation planning, and so on? Can you in fact squeeze more projects in a given amount of time?

ALTER: I think you can. There is something of that. Many people feel that the time limitation is still a very serious restraint. Even with the best of help, you're

OLIVER: Well, is there any question I should have asked you and haven't asked you yet?

ALTER: I don't know what it is. We've gone almost two hours.

OLIVER: Yes, you have been very patient.

ALTER: If I had access to the files and things like that, I could illustrate, perhaps more vividly, some of these things. My memory is not all that good on specifics, but I think we have covered -- O.K.

OLIVER: O.K. indeed. Thank you.