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A CONVERSATION WITH IRVING FRIEDMAN, II

NEW YORK CITY

June 21, 1986

CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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Robert W. Oliver

OLIVER: May we talk a bit about how and why you came to the World Bank from the Monetary Fund as well as your impression of the Bank at that time?

FRIEDMAN: When I came to the World Bank, the two leading figures were Geoffrey Wilson, who had not yet become Sir Geoffrey Wilson, and Burke Knapp. It was my understanding that, between the two, Burke was the more senior. Although no one had the authority and position that Robert Garner had had, in the absence of the President, Burke was clearly the person left in charge.

Geoffrey Wilson, who had the reputation for being a very fine person, moral, committed and so forth, I found disappointing. I fully expected that I would find him a person that I would like very much. I had had very close relations with the British. The fact that he was English and part of the British government was, from my point of view, all in his favor. But I found very quickly that he would do objectionable things like, at the President's Council, correct Woods in the middle of a sentence, tell him that his pronunciation wasn't right. It was terribly embarrassing. He didn't seem to think anything of it.

The first personal issue for me that came up was the question of rank and the perks of the office. I did not want to be treated as having less rank than Burke Knapp and Geoffrey Wilson. I knew, for example, that these two had a Bank car. I asked whether or not I could have a car.

I'd already had a somewhat nasty experience: the Administration of the Bank had selected a room for me remote from the President's office which was the same room I had had when I was a Division Chief of the International Monetary Fund many years before. It was a cubby-hole compared to the luxurious rooms that Geoffrey Wilson and Burke Knapp had next to the President. Woods was furious and a new room near him was created, but it alerted me to the fact that I was going to have some difficulty being accepted in this environment.

OLIVER: Do you want to repeat the admonition from Pierre Paul Schweitzer in the Fund to make sure that you were at a higher rank than you had been in the Fund?

FRIEDMAN: Schweitzer said, "Why do you want to do it?" I explained that I had been in my present position in the Fund for many years, and this was a chance to do something worthwhile and different. "Well," he said, "You will always be, until the end of your career, Number Three in the Fund. No one can ever displace you. As for being Number Two (i.e., Deputy Managing Director) that is up to the U. S. Government, your own government. They're the ones who select the Number Two." I had known that Per Jacobbson had recommended me to be the Number Two person when Merle Cochran left (if the U. S. elected to select someone from the staff), but Frank Southard was selected. He had served many years with distinction on the Board as the U. S. Director.

One of the things I told Schweitzer at the time: "I worked for the Treasury where we regarded the Fund and the Bank as Bretton Woods Twins." Schweitzer said, "Twins!. These institutions don't get along at all; they have very little to do with one another." I said, "Well, at least that's what we were called; if we're not twins I will do my best to make us cousins." (That was a sort of bon mot that I had reason to remember in the future. I sometimes used it in speeches that I gave about cooperation between the two institutions.) Schweitzer repeated, "I want to make it clear that, if you go, you have to get a promotion."

At this point in time I had been at the top of the salary range of the Monetary Fund for about five, six, seven, eight years; I can't remember exactly, because the rule was that no department director could get paid more than an Executive Director. There were certain countries like the United States and Canada which consistently and successfully opposed an increase in the salaries of Executive Directors. Therefore I, as a department head, was one of the very few people who for years had not been able to get any promotion whatever. I was at the top for a staff member. So what Schweitzer was saying was very specific. In the World Bank, the precedent had been set that Burke Knapp and Geoffrey Wilson, like Garner before, had been paid more than an Executive Director. Schweitzer saying, "You have to get a promotion," had real meaning and could be done.

When I took this up with Woods, his reaction was that it was a perfectly reasonable attitude on Schweitzer's part. He said, "Well, we'll make you a vice-president." Then he came back in just a few days (this is all within the compass of a week or so) and said, "I've checked it out and it's going to be difficult. I've got two problems. One is I would have a second vice-president who is an American. (They already had Burke Knapp.) The other is that Alderwereld is raising the question as to why he doesn't become a vice-president too, so I'll have to make him a vice-president. Then I'll have three vice-presidents. You'd be the fourth. That's difficult. Can you think of something else?"

I thought, well, the job that I was getting, as discussed with Woods, was going to be of an economic nature and, therefore, could have Economics or Economist in the title. It would indicate what I was really going to do. So I came up with the idea of being The Economic Advisor to the President. The emphasis of being The with a capital 'T' was because the World Bank already had economic advisors within the departments--within the Projects Department and the Loan Departments -- like Andy Kamarck, who was Economic Advisor in the Africa Department. To distinguish me from them, I put in the word The Economic Advisor. Woods added that he could form a President's Council, and all of its members would have vice-presidential rank irrespective of title. I came out with a title, and I came out with a promotion of $1,000 a year, $1,000 more than the Executive Directors were making. I broke the barrier.

One of the things that Woods said at that time was very clear: "I can tell you now that if you come to the World Bank, I promise you, you will never suffer in any way, shape, or form from moving from the Fund to the Bank." I had made the point that Jacobbson had put in three names to become Deputy Managing Director: Jacques Polak, Peter Gold and myself. "I have some chance to become an Deputy Managing Director," I told him, "in which case I would break the sound barrier, the salary barrier." He said, "Well if you come to the Bank, you will never suffer in relation to Polak or Gold. You will always be paid as much as they and as much as one of the vice presidents here. You're never going to be in any danger of suffering financially from coming to the Bank." That was an agreement later reneged on by the Bank.

As for my request for a car, Woods said, "We can't have three cars yet; I might get another in the future, but why don't you and Geoffrey share a car?" Geoffrey Wilson said he wouldn't share his car. Woods was very upset because he couldn't see why Wilson couldn't share a car, but he would not share a car. So we got an extra car assigned to me. Alderwereld also got a car. That established the principle of a separate car for every member of the President's Council.

Within about a month or so, Ronnie Broches, the General Counsel of the Bank, raised the question, "If Alderwereld can be vice-president, what about me? I was at Bretton Woods as part of the Dutch delegation just like Sim Alderwereld, and, as our General Counsel, I think I ought to be a vice-president too." At about the same time, Dick Demuth, who was Director of Technical Assistance (and had also

been a distinguished, well thought of, and honored person, regarded as kind of a brain-trust, at least within the Bank and the IFC and some of the technical assistance programs of the UNDP), raised the question with Woods, "What about me?" So within a short period of time, we had six cars instead of two, and we had six people on the President's Council. Then Geoffrey Wilson dropped out and was <u>not</u> replaced. We had the same President's Council for four years of Wood's administration. It consisted of Woods as Chairman, Knapp, Demuth, Broches, Alderwereld and myself.

We met every day at 9:30 -- out of courtesy to me. Everyone else was prepared to come at 9:00, but I explained to Woods that I had to be driven in from Bethesda, so we met at 9:30. Woods was very understanding, though he could also become very impatient at times. One of his problems was courtesy. I got the feeling that there were two people he didn't like. One was Dick Demuth and the other was Burke Knapp. Woods would say of Demuth, "Why don't we get rid of that guy. He's sick." Dick did have a bad back, but there was nothing really wrong with him. Woods just didn't like him. Why, I don't know. I have no idea why not. All I know is that I repeatedly told Woods I didn't agree with him about Demuth.

I think Burke was too smiley for Woods. Burke always smiled at everything; whatever happened he'd greet it with a smile. I believe that Woods never felt that he had Burke's real respect. Burke came out of the Eugene Black era. He was quite well regarded in the Bank, and as far as I know, Woods never did anything to diminish his authority.

Quite to the contrary. Woods would make it very clear to department directors and to those of us on the President's Council that the second man in the Bank was Burke Knapp. I remember once in the senior staff meeting, where we had present many department directors and members of the President's Council, Woods stated his view of the Bank hierarchy: the department directors were one-star generals, members of the President's Council were two-star generals, Burke had three stars and he had four stars. That's how he saw the Bank.

OLIVER: When did it become known as the President's Council?

FRIEDMAN: It was only a matter of weeks, if not instantaneously, after I joined the Bank in September, 1964. It was one of the devices Woods created to accommodate my coming into the Bank from the outside. As he told me over and over again, one of the reasons for the President's Council was to make clear that anyone on the Council was co-equal in rank with anyone else. He didn't have to give Ronnie Broches the formal title, Vice-President, which he didn't. He didn't have to give a new title to Dick Demuth. He didn't have to give a new title to Irving Friedman, because, as he would always describe it, these people are members of the President's Council, all of whom have the rank of vice-president. It was a convenient device which he installed. Whether someone suggested it to him, I just don't know.

OLIVER: These were the members: Alderwereld, Broches, Demuth, Friedman, and Knapp?

FRIEDMAN: Yes. From time to time, they would invite Marty Rosen, as Executive Vice President of the IFC, to the President's Council, but,

to the best of my recollection, he never became a formal member. That did not mean he didn't have enough rank. As a matter of fact, in his own way, Marty had more rank than anybody on the President's Council. But it was very definitely the intention of Woods, and it was clear to everyone else, to have a kind of Chinese Wall between the IFC and the World Bank. The IFC was part of the World Bank Group, as it later became known, but it really operated very largely as an autonomous institution. So Marty Rosen would have his own meetings with Woods. Marty was very clear that he did not report to Burke Knapp or to anyone on the President's Council, that his relations were with the President of the Bank, who was the head of IFC as well. It was generally believed that Marty Rosen believed that he had been promised by Black that he would become the President of IFC. (I knew Marty from previous years -- not very well, but well enough.) He didn't make any secret of his belief that he thought that Woods was committed to making him President. Woods did not make him President of the IFC, however.

OLIVER: Do you remember off-hand whether any minutes were taken in the President's Council?

FRIEDMAN: No. I don't think so. I don't remember any minutes being taken. We had no secretary.

OLIVER: Was the President's Council the same thing as the Senior staff? There was a Senior Staff Committee?

FRIEDMAN: Yes. There was a body that consisted of all the Department Directors and the Vice-Presidents meeting with the President.

OLIVER: That was bigger?

FRIEDMAN: Much, and somewhat more formal. I think it had a Secretariat probably headed by the Secretary of the Bank, Morton Mendels. I think there was a more formal record of decisions made. As for the President's Council, I don't remember whether or not anyone made a note of any particular decision that had been made. It was, basically, a decision-making body, although obviously it was fundamentally an advisory body to the President, because no decision would have been made against his opposition to it. I'm trying hard to think whether I can recollect any minutes, but I don't. That doesn't mean it didn't happen. I just don't remember.

OLIVER: The President's Council met daily or weekly?

FRIEDMAN: Daily. And Woods preferred that, when he was away, it met under Burke's chairmanship, so that it always met. Woods was a great one for believing in coordination and keeping us all informed. I later found out that it wasn't true. A number of these fellows simply ignored Woods and wouldn't inform the President's Council of what they were doing.

OLIVER: May we go back a bit and have you say how Mr. Woods came to know about you and how he selected you to be the person to direct the economics work of the Bank? Did you know each other before then? Or were you introduced by some intermediary?

FRIEDMAN: I can only tell you what I know, and I think it's very incomplete. I'd love, myself, to know the full story of this, because I never did. I was called in the afternoon, I think it was June or so of 1964: Would I come over and have lunch with the President of the

World Bank? At the most, I had met him once before at an Annual Meeting. I would have said at the time I didn't know him, but I came to feel that I had been introduced to him at the previous Governor's Conference.

At that time, he said, he was considering asking me to come over to form an economics staff and direct the economics work. Would I do for the Bank what he knew, what everybody knew, I had done for the International Monetary Fund. Could I organize the work with countries and bring about something that was equivalent for the Bank. He felt, and I'll never forget that conversation because it was so important in my whole career, that as a Bank it did not need an economics staff, but <u>now that the Bank included IDA he saw the need for an economics staff</u>. How much you gave to IDA and for what purposes were not banker's decisions. He didn't think the Bank needed an economics staff; bankers knew how to make loans; but when it came to IDA, it was not lending; you were giving someone a gift. Since the Bank would be entrusted with what at that time was already internationally a fairly substantial amount of grant money as well as function, he felt the need for an economics staff. He had heard that I had done this for the Monetary Fund. Would I come and do it for the Bank?

He didn't indicate at all who had suggested me. At that time, I thought that I had been suggested by Andy Overby, who was the person in First Boston who was most familiar with what I had done in the Monetary Fund. I never asked George, but sometime later, maybe years later, I asked Andy Overby whether he had recommended me, and he said, "I recommended you, but George called me up one day and said, 'I'm going to ask Irving Friedman to come over and talk about this. What do you think of the man?'" He said, "Of course, I recommended you, but the suggestion didn't come from me. I don't know whom it came from."

At this point in my career, I had very close relations with the U S Government, the Japanese Government, the British Government, the German Government and others. I was, in many respects, I think everyone would agree at the time, the most eminent person in the Monetary Fund in terms of relations with continental governments -- outside of the Managing Director himself. I had more to do with governments even than the Deputy Managing Director. In addition, after Woods' offer, the United States Executive Director of the Fund, who was Bill Dale and the Executive Director of the Bank (I'm trying to think, a Philadelphia lawyer who was -- I think he was a Philadelphia lawyer -- who was the Assistant Secretary of the Treasury and also the Executive Director of the Bank) invited me to lunch. They told me that they understood that I was being asked to take this position in the Bank. From the point of view of the U. S. Government, they said, this was terribly important; it would be very much appreciated if I would be willing to leave my post in the Fund and take this post in the Bank. They didn't give me any reason to believe that it was the U. S. Government that suggested it, but it could have been. I was quite well known to "Joe" Fowler who was the Secretary of the Treasury at that time.

OLIVER: Fowler had just become Secretary of the Treasury.

FRIEDMAN: Exactly, he'd just become. But I've no idea to this day who originated the offer to me.

Woods told me the name of the other person he was considering: Alec Cairncross. He was very eminent in academic economics and was the economic advisor to the British Treasury. I knew him and thought very highly of him. Woods told me that this man had been suggested to him and asked me what I thought of him. I told him that this person was truly outstanding. If he got this person, I didn't think he could go wrong. Part of a little delay at this time in making a definite offer, I believe, was that he was finding out whether Cairncross was a serious candidate. I had known Alec Cairncross for a long time and I had a very high regard for him. In fact I told Woods about his career in much more detail than he knew. Then, some days later, because we began to have a series of luncheons at this point in time, Woods told me that this fellow, Cairncross, whom I don't think Woods had ever met, maybe later, was just not available. From then on we began to talk precisely about what terms and conditions would govern my coming to the Bank.

I really don't know, Bob, what would have happened if Cairncross had been able to say, "Yes." I might never have gone to the World Bank. Woods never had to choose between Cairncross and Friedman. He had Friedman willing to come and Alec Cairncross uncertain that he would come. I believe that the British Government would not let him go. Of course, in a way, this aspect made the job more attractive to me. I was a very strong admirer of Alec Cairncross from every point of view and figured any job that's good enough for Alec is good enough for me! It put a stamp on the job of the kind of person that would be considered for it. I felt quite comfortable with the whole idea. That was the circumstance under which I came to the World Bank.

I have one other memory, which I hope doesn't find its way into the book yet, but it's part of my understanding of the World Bank as I came to see it in retrospect. I have had a kind of a sense of grievance toward some of my friends who were in the World Bank, that they never tipped me off to the kind of bureaucratic problems I was going to have there. Close friends like David Gordon, whom I had known from before the War, and people like Morton Mendels who were veterans of the Bank. When I went and asked about the World Bank, I got very evasive replies. I didn't now how to interpret them. Later on, when I had had my own experience, I knew how to interpret them. The only person who, I remember, was really candid with me was Zaki Saad.

OLIVER: Zaki. . .

FRIEDMAN: . . . Saad, Executive Director for Egypt since 1946. He was the most powerful Egyptian Executive Director the Bank ever had. He really understood it. He and I were very close personal friends. When he heard that I was going to the Bank, he was quite unhappy. He said, "Well, you know, you've decided to go, so you go; but I warn you the person with the longest blade in that Bank, and who wields it most skillfully, is this fellow Burke Knapp. Never trust him." Frankly I didn't believe him, because I had always felt Burke was a very nice person. I had to learn from experience that this bureaucracy that I was dealing with in the World Bank was nothing like we had in the

Monetary Fund. When I went to see Eric Roll in England, he was very enthusiastic about my going to the Bank; but John Stevens of the Bank of England thought it was "dropping out of the top drawer." He had been the European Department Director of the Fund for two years.

When I first saw Peter Lieftingk, for whom I had high regard, Peter said, "you've got to go to the Bank because that's where you can make a great contribution. You're more needed in the Bank than you are in the Monetary Fund." When I went to see Bill Martin, with whom I was quite friendly and saw fairly often in those days, Bill said, "Anyone who has a chance to work for George Woods can't turn it down." I went to see Charlie Coombs, who at this point was the Senior Vice President, International, for the Federal Reserve Bank of New York, which in those days was a key position. (There were very few people in the monetary field who had concentrated on the international side, and Charlie was easily one of two or three most unique persons in the field). Charlie said, "There's no comparison between the Fund and the Bank. We in New York have a high opinion of the World Bank; we think very little of the Monetary Fund. So if you get a chance to do this in the World Bank, you can't turn it down."

A bit more about John Stevens. John Stevens was an Advisor to the Governor of the Bank of England. He had been both an executive director and department director in the IMF. We had been close colleagues, and since I headed the U. K. annual consultations, I saw him repeatedly. We were close personal friends. I remember taking a walk with him at Windsor Castle before I finally accepted this offer.

I asked him what he thought. I'd spoken to Eric Roll and others and all were well disposed, and I was predisposed to say, "Yes". He said, "Well, I see you've decided to do it, but I can tell you when you leave the Fund you've fallen out of the top drawer. No one is in the top drawer in the World Bank," he said, "no matter what position."

I guess I didn't want to believe that. I never quite understood the wisdom of that observation until I went to the World Bank and had my own experience. In the eyes of the world, I was going up; in the eyes of the world, this was a glorious job. But not from the inside of both institutions, not from those who knew more about the environment of the World Bank than I did.

May I interrupt this train of thought with a recollection of possible interest. In about 1960, I think it was (Per Jacobbson was still alive), we had a meeting of Fund department heads. The idea came up that we ought to have a publication called Finance to give a sort of running commentary, less technical than Staff Papers of what was going on in the field. Per Jacobbson had already made that known. It was felt we ought to get beyond our Staff Papers, which was kind of academic. We could use and afford another publication. Jay Reed was in charge of publications and was all for it -- maybe he requested it. I was a strong supporter of this proposal, and made the suggestion: it might be a good idea if we asked the Bank to join. We would make a joint publication of the Fund and the Bank. The issue of whether we ought to do things jointly with the Bank had been there from the first day when we talked about staff, the joint library, the building, etc.

This was not a new issue, I had always been one of those who felt that in some way there ought to be more cooperation and collaboration between the two. I remember making this suggestion, and Jacques Polak looking at me and saying, "Well, Irving, this is going to be in economics; who in the World Bank could ever contribute anything to this publication?" That ended the discussion. There wasn't anyone in that room who was prepared to identify an economist in the World Bank who would be good enough to contribute to journals which were also being contributed to by the IMF staff.

This was a view of the World Bank that you got from inside the Fund. It wasn't a view that I shared. I had always had respect for Paul Rosenstein-Rodan and Jerry Alter, whom I had tried to recruit to come to the IMF. I knew Bob De Vries. I knew Andrew Kamarck. I knew Sandy Stevenson. I knew quite a bit about fellows there from other places, including the U. S. Treasury, I saw them as pretty intelligent fellows. There was a group of people, however, both in the Fund and outside, particularly in the central banking community, that regarded the World Bank people as bankers. They wore homburgs and made loans and that's all. Of course we were jealous about all the favorable publicity they'd been getting in the press where we in the Fund got very little favorable publicity in those days. There was this kind of mixed attitude.

When Woods approached me about a job, I came at it backwards. We're pretty snobbish about the IMF; and to be, as I was, in the kind of position I had in the IMF -- it was a hard thing to leave. To this day, I can say now, after many years of retrospect, I'm not at all sure I made the right career decision, within straight career decision terms. It's kind of fascinating to think back on those days and see the evolution of my career in the Bank, because it was so reflective of some basic problems. With the World Bank people, from the first day, I found myself having issues with respect to substance at the World Bank. That remained true until I left. That doesn't answer your question of who suggested my appointment. But I really don't know.

OLIVER: Is Andy Overby still alive?

FRIEDMAN: No Andy died last year.

OLIVER: He might have known. Even if he didn't . . . .

FRIEDMAN: Well, if he did, he never told me; and he and I were very close. I think I could say that Bill Martin and I were his two best friends. He said so to everybody, and to me, that we were his two best friends. Within all the years that followed, he never told me that he knew who proposed me to Woods. I think he knew that I was always very curious. I still am very curious as to who first suggested my name. Of course it could have been the U. S. Treasury, because at that time George Willis was the Director of International Finance at the Treasury, which was the key civil service position, and he had a high regard for me, as I for him. People asked George Willis about people. George Willis was the man who had recommended me to Andy Overby in 1948 without my ever having met Overby. That is how I made my first major change within the Fund. I never asked George about this. I guess I could ask him now. That's interesting. Maybe I ought to ask George

whether he was the one who had made this recommendation, because any recommendation made by George Willis would have been taken very seriously.

OLIVER: When you came to the Bank what did you perceive as your primary responsibility? I realize it was to do economic analysis. By two years after you went there, the World Bank was beginning to turn out World Bank Tables and that sort of thing. So, I ask two questions: What did you perceive as your major course of action? and How did you go about it?

FRIEDMAN: Well, I think it's fair to say that my major course of action was well discussed at every stage with Woods. He gave me a lot of initiative, a lot of endorsement. I had a mandate to <u>suggest</u> anything I wanted and rarely got turned down. It was a part of his activities as well as mine. But as I saw the job, the first thing was to build an economics staff at the World Bank that had at least the same standing in the world community, whether it was academic, governmental or central bank, as the Monetary Fund -- at least up to the reputation the World Bank now has.

In those days it did not have that reputation. It had the reputation of a institution that once had had a very fine economics staff, but it had been largely disbanded. Individuals within the World Bank like Drag Abramovic, Andy Kamarck and Jerry Alter were highly regarded in the economics profession and highly regarded in the International Monetary Fund by those of us who knew them, but they were not part of an organized economics staff. At this point

Leonard Rist, who had been years earlier the formal head of the economics staff, had the title of Special Advisor, but he was not playing any important role. I think he was brought in on the Geheziro Project in the Sudan, but it wasn't of all that general interest. We knew that Drag Abramovic had been working on commodity problems and had been doing some work on debt. The Bank had an Economic Development Institute of which Mike Hoffman was head. John Adler was teaching there at the time. This was kind of a mixed situation, but the Bank didn't have an economics staff as such.

I thought my first job, clearly indicated by Mr. Woods, was to go out and recruit and organize an economics staff as a department. We had to go out and hire people, and I told Woods we had to pay people more than the Monetary Fund. I wanted his agreement that I could pay 10 percent more for the same kind of person than the Monetary Fund. I needed to out compete the Fund. In order to get people of the Fund's caliber to come to us, we had to be seen as attractive in many different ways -- academically, by reputation and salary. He heartily agreed. I had no problem in that regard. We did the usual thing. We went out and contacted the universities. We very quickly started to compete. I think, Bob, I hired hundreds of people. Andy Kamarck, whom I made Director of the new Economics Department reporting to me, played a major role in recruitment and reorganization.

I had to decide who would be head of the Economics Department. I decided then that he would come from within the Bank

itself. That's how I picked Andy Kamarck. I thought very highly of Andy Kamarck (I'd known him from the U. S. Treasury days), but I also knew that he was a very highly regarded economic advisor, in many respects the most highly regarded economic advisor in the Bank. I went around and asked World Bank people to give me on a piece of paper five names that they felt were the best economists in the World Bank. Andy was on everybody's list. He was the most highly rated person in this poll that I took, and that fitted in with my own biases in his favor. So he became my principal lieutenant.

After we started the process of recruitment, we organized divisions that we would put in our economic structure. Those divisions were be the ones you'd expect. We agreed to have one on Debt, one on Commodities, and one on other functional divisions, including Statistics. We had people at the Bank who had already done external debt statistics, for example. One of the first things we did was to start a structural program of external debt statistics collection. That's when the Statistical Tables began to emerge. We first began the process of putting together what we wanted, creating the forms, and so forth. In addition to the structure of the staff, I, from my experience in the Monetary Fund, desired to put us immediately to work on certain problems. Some of the problems were there waiting for us. One of the first things we worked on, for example, was how big should the First IDA Replenishment be? How do you make a judgment on how big IDA should be? That's a separate little story, but Woods at this point in time had undertaken the responsibility for the First IDA

Replenishment rather than the Secretary of the Treasury. That put the onus on the Bank to have a position on how big the IDA should be. The original IDA had been decided in the U. S. Treasury in consultation with other governments but now this became a Bank function, and one of my first functions was to decide how big IDA should be.

In that connection, one of the first tasks was our own assessment of the capital requirements of developing countries. There had been a big dispute going on at that time with people like Raoul Prebisch as to what was the absorptive capacity of the developing countries that were members of the World Bank and IDA. I had thought that, as a prerequisite for a good judgment on the IDA Replenishment, the Bank ought to have its own judgment as to what was the absorptive capacity of developing countries. I'll be glad to tell you more about what these studies consisted of.

Another task that came up immediately was to deal with two UNCTAD resolutions: Before I had come to the Bank, UNCTAD had started to operate (in 1960), and there had just been the 1964 session of the UNCTAD. At that time, two resolutions had been passed. One dealt with the so-called Horowitz Proposal, which was a form of interest-rate subsidization; the second was what came to be called the Supplementary Finance Proposal. Both of these resolutions had been passed by the UNCTAD. They both requested the World Bank to make a study and to report back to the UNCTAD the findings of such studies.

The first mission I undertook was on The Horowitz Proposal. Very quickly, in a matter of just weeks, I also organized a group

that became my group for the Supplementary Finance Proposal. These included Thalwitz, for example, who is now vice-president for West Africa. The Indian, Ravi Gulhati, who is still in the World Bank, was on my crew. I needed about three or four, and I recruited them in the first instance from the World Bank itself. I had let the word get out that anybody who was an economist in the World Bank and would like to work with us, if it was agreeable to the person with whom they were working, could apply to transfer into this group. So we got quite a sizeable group. I found actually that there were many, well-trained economists in the World Bank, but they weren't doing economics. There was a pool of talent within the World Bank that I could draw upon and did draw upon.

A few people were hired to improve the international character of the staff and bring the latest in training and thinking from outside the Bank. One from Brazil, one from India, Bimmal Jalan; one from Pakistan, who in the end could not come for family reasons; one, named Meenart Sundrum, from Burma. I forget one or two names.

I recruited men on a personal basis (in the sense that they were people I knew or came highly recommended by people I knew and were highly thought of) to come immediately so that at the beginning there would be an international staff in addition to the World Bank staff. They became my personal kitchen cabinet. We had a miniature senior economics council that discussed these things. (Bimmal Jalan is now the Economic Secretary of the Government of India, and Raralear Percira Liu became Governor of the central Bank of Brazil.)

We had a group of people all of whom proved to be very able. It was a very inspiring little group, in addition to those from the Bank. I had them working on IDA, capital requirements, the Horowitz Proposal, the Supplementary Finance Proposal and other matters.

From the very beginning, I went to work on the idea of organizing consultations with countries: country programs similar to the IMF embodying the notion that for every country the World Bank would have a view about its development program -- how the investment program and related policies of the country were perceived by the Bank and how we in the World Bank related to it in our lending program. We immediately started to organize work. I sought an understanding that, although the economic advisors within the area departments would continue to report to the directors of the area departments, they would be led by me. I got (it's in writing somewhere) responsibility for the professional caliber of their work, their professional output.

With this kind of approach we very quickly organized the so-called Economic Committee which Woods had to approve because it was a real innovation. It was not called for in the Articles of Agreement like the Loan Committee, which at that time was being chaired by Burke Knapp. The Economic Committee was an innovation where the heads of all departments (and anyone they wanted to bring) could come. Every loan proposal, before it went to the Loan Committee had to pass the review of the Economic Committee. The idea of it was that we would ask central questions: What do we think of the development program in the

country? Is it a sound program, feasible. Is it economically sensible? Is the country appropriate for IDA support? Is it creditworthy for the Bank? Do its development activities merit the support of the Bank? We had long discussions of shadow prices and issues of that kind in this Economic Committee before we would pass a loan on to the Loan Committee. (Woods was very good in policing this and making sure that this innovation was followed.) The Economic Committee would have to come up with a decision, a recommendation to the Loan Committee and the President, that we felt that this country was suitable and this proposed loan would be proper.

The other innovation was that I invited the chairmen, the department directors, of the area departments <u>at the Fund</u> to attend all our meetings whenever their country was discussed. Because of my personal relations with the heads of the area departments in the Fund, I got them to do it. They agreed that they would not ask for formal permission from the Fund management, because we knew they would probably not get it. It was a matter of principle. The Fund-Bank relationship had not advanced to the point where the Fund would have been prepared to agree formally -- at least that was my judgment, having just come from the Fund. I was a staunch advocate of close Fund-Bank relations, but I was now in the Bank, rather than advocating for the Fund. I had the judgment, maybe wrong, that my colleagues that I had left behind in the Fund were not all that enthusiastic about the idea of closer relations with the Bank. The fact that I went over to the Bank, may, if anything, have weakened their desire to collaborate.

OLIVER: A point of clarification: Are you saying that in the Economic Committee in the Bank some Fund economists were invited to participate in the discussions?

FRIEDMAN: In virtually all the discussions. We never had a discussion of a country without having the director, or the acting director, of the concerned area department of the Fund present. I always would ask them to every meeting. They spoke independently and separately, not just as observers. I always requested and always got complete cooperation. "From the monetary point of view: What is your judgment about all of this? As you see it from the point of view of the Fund, do you think the policies are sensible?" I simply practiced Bank-Fund collaboration.

OLIVER: Who from the Bank would be a part of the Economic Committee?

FRIEDMAN: All the area department and projects department economists participated.

OLIVER: So it was a pretty large group, thirty, forty people, maybe.

FRIEDMAN: Not quite. I believe it tended to have very much the same people. It was very well attended. I was known at this time as the fair-haired boy of the President. I was the only one he had brought in at a senior level. Woods made it very clear, I forget exactly how, that he thought the Economic Committee was a great idea and he was all for it. So I didn't have a problem getting good attendance.

Sometimes I didn't get the director of the department. He'd be off on a loan negotiation, but then he'd send his deputy or his economic advisor. We had very good attendance, including from the Projects Department. I insisted that the economics of projects had also to be discussed in the Economic Committee. The discussion on shadow pricing, for example, was a discussion of the economics of project evaluation.

I wanted to have one place where the professional standards of the Bank in economics were being articulated. People like Mervin Wiener in Latin America, or Takahashi in Agriculture would come. They were very good participants. They would raise the issues that had arisen on a country benefit-cost analysis. What did their colleagues think of it? It created for them a forum where they could bring issues to the attention of fellow professionals in the field. In their departments, they didn't have fellow professionals to talk to. I don't remember any difficulties at all in having these people. We had very lively meetings; well attended; I didn't really have any problem carrying them on. It seemed that people wanted to come; others would come and ask me if it was all right if they came too. It was not a question of people trying to get out of it.

OLIVER: I want to ask what the major differences were between the Loan Committee and the Economics Committee in terms of attendance but also in terms of subject matter. What was the single most important question the Loan Committee was trying to answer? What was the single most important question the Economics Committee was trying to answer?

FRIEDMAN: Well, we addressed at least two separate questions, equally important.

OLIVER: "We" being the Economic Committee?

FRIEDMAN: The Economic Committee addressed the question of whether the proposal was, from the point of view of development economics, a sound loan to make -- from the point of view of development economics, not from the point of view of some operating policy of the Bank. Secondly, from the point of view of credit-worthiness, was this country credit-worthy for Bank loans, or was it reasonable that this country should be an IDA recipient? So, for example, we had long discussions about whether or not India or Pakistan should have, at that point, nearly two-thirds of the IDA loans. I used it as a place where I would bring in questions that were useful for the IDA Replenishment, to deliberately provoke the kind of questions I knew would come up in the IDA Replenishment or were already beginning to come up. I used this as my forum for discussing these problems professionally.

In the Loan Committee, they had the formal, constitutional responsibility of recommending a loan for approval to the Board. One of the things that came out of this innovation was a joint memorandum to the Board on a loan proposal which had to be approved by Knapp and myself. We had a separate discussion of the economics of the project and the economics of the country as part of the recommendation of the loan, which was an innovation made possible by what the Economic Committee was doing. We had some people who did the drafting. (I forget who they were).

The Economic Committee was a fairly formal and formidable thing. It wasn't just a general bull session. It had an agenda, and the agenda consisted of loan proposals; or I would sometimes bring in a general subject like capital requirements for discussion. It wasn't just chitchat. We came to discuss specified matters; that's how we involved the Fund people. I could tell them that we were going to discuss Brazil or Argentina or Indonesia. Could they please come on such-and-such an afternoon? I always invited the Fund people and usually they accepted. When we had other items on the agenda, I told them that they should please feel free to stay. My view was that we had nothing to discuss about economics that was confidential from our colleagues in the Fund.

OLIVER: Did the Fund people ever reciprocate in the sense of inviting Bank people to come talk to them, to join them in discussions of the effect on, let's say, exchange rates and balances of payments of major development projects?

FRIEDMAN: Well, not in any formal sense. There was no counterpart to the Economic Committee in the Fund. It isn't as though they ran an Economic Committee that the Bank wasn't invited to. They didn't have such a thing. They just had heads of departments meetings. The Bank had heads of departments meetings, and at those meetings the Fund wasn't invited.

The person who seemed to know the most about liaison between the two was Dick Demuth. He was very much involved with these consultative groups, and, often in the mechanism of his consultative group, the Monetary Fund would make a report on the monetary situation. So, there already were a number of things going on that would be considered Fund-Bank collaboration on a kind of _ad hoc_ basis. There was nothing systematic. We created in the Economic Committee in the Bank a mechanism for collaboration. There was no such mechanism in the Monetary Fund. It is fair to say, I hope partly motivated in the sense of reciprocity, Fund people did often discuss matters of common interest with Bank people. More and more, out of this period came the practice of the the Bank staff inviting Fund people to join our missions.

I did not follow the World Bank's traditional approach (which didn't come from Bank staff) of going out and hiring eminent people to do their surveys of certain countries. They were usually very large groups of outside people, helped by someone like Andy Kamarck, who in the end had to do much of the drafting in the name of some very distinguished person or persons. This practice resulted in mammoth reports on Morocco and other countries, which were really very, very good -- at least, I learned a great deal from them. They were not, however, staff work in the way that I was accustomed to in the Monetary Fund. I began with the premise: we did not want to do that kind of comprehensive background. What we wanted to do was to prepare an economic report that helped us decide what the World Bank and IDA should do. That is very different from a general survey. It has got to be scheduled. It's got to be manned. It has to be finished on time. If, as a matter of fact, the Monetary Fund was willing to come along and do the chapters on the monetary situation, balance-of-payments, analysis and fiscal reduction, so much the better. We could use all the help we could get, and they were competent.

OLIVER: Did this collaboration between the Bank and Fund continue after you left the Bank?

FRIEDMAN: Dick Demuth and I, together with Frank Southard and someone else, became a group that met to discuss Fund-Bank collaboration, and we agreed on things that already were basically going on, like being invited to join a mission, the division of labor based upon the different activities of the institution. One of the first things that McNamara did was to abolish the Economic Committee.

OLIVER: Abolish the Economic Committee altogether?

FRIEDMAN: Altogether.

OLIVER: What was the explanation?

FRIEDMAN: No explanation that I can recall. After that we did not have anyone present from the Monetary Fund. We became like the Monetary Fund in that there was no mechanism for collaboration of that kind. Collaboration depended on individual situations. With the abolition of the Economic committee, the machinery of the Bank became the annual business budget, discussions by the President's council, or an expanded group, of the plans of the Bank for the year. It was called the Program Review Committee, something like that. It was at those meetings that McNamara presided.

We had a number of programs evaluated. We met, and the area department director and his staff would come up. They would state their proposed plans for the year. They would be subject to examination by anybody in the room.

At first Andy Kamarck and I were, in effect, the secretariat of that group. We were the secretariat, I think, but the lead role was really played by the area man and by the projects people who were part of the country program. So if the country program called for agriculture, for industry, for transportation, then the person within the Projects Department was involved. The director would also be present. But no longer was economics the orientation.

OLIVER: Did you ever have the feeling, while the Economic Committee existed, that any of the area department people or other important staff people in the Bank were opposed in some sense to the existence of the Economic Committee?

FRIEDMAN: Oh, yes. I mean, there were always mutterings. The traditional idea that the real power in the Bank was whoever was the Chairman of the Loan Committee was no longer true. There was a division of power. In the old days, anything that Dick Demuth suggested was submitted to the Loan Committee. Anything suggested about projects went to the Loan Committee. That was <u>the</u> Committee that did everything. There was a great centralization of power in the Loan Committee of which Robert Garner was the chairman for many years. People muttered around, I forget their names, but they were constantly muttering to me about how it used to be simple: we just had to go to the Loan Committee. Now we have to go to the Economic Committee too.

As an example of the attitude, there was a lot of talk about the positions of economists. I wanted to elevate the status of economists. One of my thoughts had been that the economic advisors of the area departments be made the deputy-directors of the departments.

The principal officer would be the loan officer, and his deputy would be an economist. There would be a kind of joint leadership, both on the operational and the economic side. I never could get that accepted even when Woods was there. I was constantly opposed by people who muttered that economists were meant to be advising, that's all.

OLIVER: When you say the loan group, do you mean people in the area departments?

FRIEDMAN: People in the area departments and also on the Loan Committee. The Loan Committee consisted of directors of the area departments and the Personnel Administrator who would say, "We don't need that. That's not our view of economic advisors." I never got wholehearted acceptance for my idea of an economics staff. But the key role remained. Some were very disappointed when it became clear that my role was not to be only that of an economic advisor. Others, of course, inclined toward the new approach.

OLIVER: Were you part of the Loan Committee?

FRIEDMAN: No. I never attended a meeting of the Loan Committee.

OLIVER: Are there minutes of the Loan Committee?

FRIEDMAN: I think so. It was a very formal body. It had a constitutional status in the Articles of Agreement, which was quite different from the Economic Committee.

I never did succeed in making economists deputy-directors. The view prevailed that, after all, they were only economic advisors. Some resisted the idea that I wanted to have supervision over their economic competency. That was very clear. When I made the suggestion that I be responsible for their performances as economists, which I did, and that they'd be reviewed by me for that purpose, the issue was fudged. They continued to report to their department heads. They were never going to be in charge of anything.

OLIVER: When did the Economic Committee specifically cease? Almost precisely when McNamara became president? Or did it continue?

FRIEDMAN: I'd say within a year. I don't remember. It was probably a short period. The economics staff, as such, continued to play a vigorous role.

Of course, the word got around the Bank [in the Woods years] that there was another power. Executive directors came to me and said, "I understand you are really the most important person in the Bank outside of Woods." I knew, from my own bureaucratic experience that this was the worst thing they could say when I was trying hard to get accepted by the others. Then it started -- a very elaborate bureaucratic game. In front of Woods, people, who simply refused to cooperate or collaborate in practice, would never disagree with anything that had to do with me. Then when it came to implementation, they simply refused to collaborate. Fortunately, this only happened occasionally. It happened sometimes when collaboration was seen as a serious loss or sharing of authority.

Until Woods decided to leave in '68, from the years '64, '65, '66, '67, there never was an issue which he did not get resolved without much fuss. Mind you, I stayed out of their fields. Woods had his own discussions with Alderwereld and Chatenay about projects. I

didn't get involved; nor with Morton Mendels on how the Secretary's Office worked. I didn't get involved with the Loan Committee. I tried not to be involved, because I didn't want to be seen as someone who was trying to build an empire consisting of the things that already existed. My job was to innovate and bring about a new dimension to the Bank. I was very empire building in that regard.

The most difficult area was the IDA Replenishment. When Burke Knapp and I were in effect put in charge of it, the relations between Burke and myself became much more important. We were doing a major job jointly. In some ways, it was difficult for me. On the one hand, I knew Woods' mind (he thought of us as equally responsible), while Burke was really, in my own mind, senior to me. I had a high regard for his administrative responsibility. Later on, at some point, he became the senior vice-president, which was clearly a higher rank than mine. Yet I knew that in Woods' mind and later in McNamara's mind, they looked to both of us. McNamara repeatedly told me that he, oddly enough, looked to me even more than to Burke or anyone else to make the IDA Replenishment work. (He asked me please not tell his other people that he had told me so.)

Still, when it came to the economic work, that was regarded as my area. It irritated me, however, when I found that I got no support from these colleagues; they weren't on my side arguing for the thing. Woods had them kind of neutralized; he just didn't pay much attention to them when it came to my field. He did pay a lot of attention to them when it came to their own fields. He respected their jurisdiction. He did not play games. He would talk to me about what I was doing.

He might say that Dick Demuth was too sick to work. But he never asked me what should be our relations with the United Nations Development Fund should be. He respected the fact that Dick Demuth was in charge. I didn't have anything to do with the Loan Committee.

OLIVER: Were minutes kept in the Economic Committee?

FRIEDMAN: Yes. Another thing we did was to form a statistical group.

OLIVER: Before you tell about the statistics, is it fair to infer that Woods was really more interested in economic analysis than McNamara was? Economic analysis meaning analysis of credit worthiness, analysis of absorptive capacity, analysis of the success of a development program and it's overall effect on the country?

FRIEDMAN: I would not describe their differences this way. I think that Wood's idea of economics was that economics was a vital part of the Bank's decision making day-to-day. Woods helped us get started in population, for example, because he understood that you couldn't discuss economic development without discussing population. You couldn't discuss a loan without knowing something about the country and how the loan fitted in. That was his common sense, his intuitive feeling about this. You've got to really know what you're talking about. That was the role of the economist. He'd say, "What do these other fellows know about things like that?"

He had a high regard for someone like Andy Kamarck on Africa, because Andy could come in and speak very cogently about Ghana and Nigeria so that Woods would understand why this was important.

When McNamara came, the economics work was seen more, I think, as a kind of backdrop or framework to decision-making. He valued economic analysis. McNamara was a very strong supporter of economic research, particularly of a quantitative character. He supported ambitious programs to do more on the economics of demography, population, agriculture, and so-forth.

Woods was more interested in how can we help to get more output of food in Kenya. "I hear there's a whole bunch of Swedes. Can we finance their staying there? They used to be part of the FAO. They can lose their jobs. Barbara [that's Barbara Ward] just told me they're looking for a way to stay. Why don't we hire those fellas? We could. Why don't we put them on our payroll? I don't think the United States would ever have developed the way they did if they didn't have the agricultural services. That's what these fellas have been. These fellas know what to do. Why don't we hire them?" That was Woods notion of how you run the Bank. Economists were part of the decision making process.

OLIVER: I'm not trying to put words in your mouth, but it sounds to me like Woods had a better idea of the overall development process, rather intuitively, than McNamara. It sounds to me like Woods perceived that credit-worthiness and absorptive capacity are enormously important development concepts, whereas McNamara tended to see things in terms of individual pieces.

FRIEDMAN: With Woods the important thing is not the product of research. For example, I tried to form an Economic Research Group, a long-term economic research program. I got Guy Orcutt to come to work with me. Guy came up with a fairly elaborate plan. I could get Woods only to agree, I think, to six or seven economists that would do long-term research. His answer was, "What do you want that for?"

On the other hand, Irving Kravis was doing interesting research at the University of Pennsylvania which was relevant for the Bank. I had no problem getting Woods to help subsidize this. "Sure, there's academics. They've got to have money. You tell me he is a good man, and that's good enough for me. What does he want? It sounds good." In fact he wasn't just going along. We were getting work done in economics by academics, and they didn't have to be on the staff; they weren't part of the decision making process. He didn't disagree at all with this kind of work.

Bob McNamara was always very impressed with the products of quantitative research. Bob wanted to know the details of a research project. What was the expected outcome? For Woods, credit-worthiness was something decided by the Bank staff on a country-by-country basis. It kept changing as time went on. For McNamara, it was the product of a research project. It resulted in precise ratings of countries and precise measures and ratios. For Woods, it was "That's fine, that's what a professor ought to do." He was always, as I say, friendly towards giving money to academics outside the Bank to do such things, but in the Bank he wanted his economists thinking, "Who's going to go down and talk to those fellows in Brazil and those fellows in Chile and

look at what they're doing? Somebody ought to go and talk to them. They want to talk about their inflation. These loan officers, they can't talk; they don't know about inflation. Irving, who can go? Jerry Alter? Oh yes, excellent man, excellent, good man, knows all about what to say. I've talked to him about it. Have him come in and chat with me; very good talking to Jerry Alter; really understands that stuff." That's what he'd want.

For Woods, it was part of the activities of the Bank, how you run the Bank. Economists understood things about the Bank that non-economists didn't understand, and, therefore, in order to have a better decision, you want to have them there. With Bob, it was more of an emphasis on long-term projects. It was like that study that projected the $800 billion dollar surplus of the OPEC countries. Woods's idea, which I shared, was that the economics of the World Bank is just another part of its operational activities.

There is non-operational economics in the World Bank, which is your long-term research -- where you're trying to improve your understanding of countries. But on a day to day basis, an economist is just as much an operating officer as a loan officer or a projects officer. They're all doing the operations or the activities of the Bank, but bringing different professional skills to it. That's what I think inspired Woods. He said, "You know if it weren't for the IDA Replenishment, I wouldn't have any economists. I wouldn't have you or Cairncross." It wasn't to make a big study. I was the one who suggested the study on capital requirements. I don't think he was particularly interested, but he was very interested in my memorandum on why I thought a billion dollar replenishment could be justified and what arguments I would make to justify it. He thought I could do it; he repeatedly alluded to that -- that non-economists could not have written that memo.

OLIVER: What I can't tell is whether Woods used economics more or Woods used economics less than McNamara did.

FRIEDMAN: I think that they used it differently. I think they had a different view of it. I don't think it's fair to say, or correct to say, that McNamara didn't use economics.

OLIVER: Well, thank you for these insights. We must do it again soon.