THE WORLD BANK/IFC ARCHIVES

ORAL HISTORY PROGRAM

Transcript of interview with

Paul Rosenstein-Rodan

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Rosenstein-Rodan: I'm Paul Rosenstein-Rodan, an economist. I've been teaching economics at the University of London from 1930 till 1947. And during the war I became interested in the problem of underdeveloped countries and proposed to the British government the formation of a unit at Chatham House, which would have the representatives of the underdeveloped countries of the allied and even enemy underdeveloped countries, with their civil servants and economists, to form, as it were, a planning commission of a ten years' development program. I recognized that underdeveloped countries have special economic problems. It is obvious today but was considered somewhat heretic in 1942. This committee was formed at the beginning of 1943 with the representatives of all allied governments of Eastern Europe on it. A very prominent part was played by Polish economists, whose two or three representatives were Mr. Baranski, Lee Hovsky, and Hujinsky. The Czech government representatives were mostly industrialists who gave a great deal of material on industry. There was a Yugoslav representative, a Bulgarian representative, Mr. Munsholow (Bulgaria was an enemy country); and Professor [inaudible] from Greece with whom we had many difficulties since the Greek government refused for a long time to sit with a Bulgarian, even a friendly Bulgarian, at the same table. The spirit of this conversation is recorded in the article which was
published in the Economic Journal of 1943 on the development of eastern and southeastern Europe. Eastern and southeastern Europe served only as a model of underdeveloped countries. At the same time it allowed to apply this planning concretely and in detail and not only in vague ideas. They were thus a transition from an idea to a project.

After the war, immediately after the war, Sir Ernest Rowe-Dutton of the Treasury asked me whether I would like to join the Fund. I refused in principle, stating my objection to the Bretton Woods agreement and to the philosophy of the Fund as then conceived, and added that, in my opinion, the one institution which might be more important fundamentally would perhaps be the Bank. Although the feeling in official London was that the Fund would be more important than the Bank, I stated very emphatically "No"—In my opinion, the Bank may become much more important than the Fund. I joined the Bank in 1947 with the idea at first of being the Bank’s European correspondent or representative in Europe. It wasn’t quite clear where it should be. It might have been either at [inaudible], the Bank for International Settlements, or in Geneva. I went to Geneva for the first conference of the Economic Commission for Europe, to the foundation, and it was at that conference that the problems of the Marshall Plan became apparent. That was in April and May of 1947.

In the summer, end of August, before the end of the Paris conference on the Marshall Plan, I received a telegram from
Washington and joined the Bank for consultations on Marshall Plan, and when joining Washington heard that the activity in preparing the Marshall Plan were so urgently needed, it was suggested that I be transferred to Washington and not be in Europe. With many misgivings, I complied and was in the economic department in charge of the economic studies for the Marshall Plan. It was an interesting exercise in the sense that it took place at the same time as the Harriman Committee work in the U.S. government, and Mr. Bissell and I on purpose agreed not to exchange information in order to have a confrontation to learn from possibly different conclusions. After all, it was slightly different. The papers are all available in the Bank.

There was an estimate and a projection of Europe's needs. Mine was based very strongly, perhaps with greater emphasis than official studies, on the national income approach—What is gross product? What is income? And what is needed to restore the income and the rate of growth with more emphasis on what I would call the anatomy of Western Europe and less emphasis on physiology. By physiology, I mean the balance of payments, the viability, and especially the dollar deficit and the scarcity of dollar problem. I considered it as an important problem, yes, but as a kind of circulatory problem, where the bone structure, which is national income, would be more important. If I had had my way, the allocations to various European countries should not have been according to the size of their dollar deficits, but to the size of their investments, their national incomes and other
criteria. I also would have liked to avoid what we have coined in the phrase "negative incentives," by which I mean that if the allocation of the Marshall Plan proceeds according to the size of the dollar deficit, it constitutes an incentive not to improve it. And he felt that in allocations between different countries, France, for instance, was perhaps too much, because of a very inept monetary policy, which didn't correct the size of the dollar balance of payments deficit, while other countries perhaps got less because they were more careful in their policy, and that the Marshall Plan allocations, although on the whole they are a triumph of [inaudible] policy [inaudible] had this tiny mistake in detail only, not in [inaudible] proportions of relying a little on the negative instead of allowing a little negative incentives and not only positive incentives. We incidentally compared the notes with the Harriman Committee, and while economics is not an exact science, the divergence between economists on concrete issues, I feel, is certainly very much less than, we'll say, between doctors or in medicine; in point of fact—this was in my conclusions—they differed from each other to an extent of only three or four percent, which shows how very nearly independently, one came to estimate the needs of various countries.

For the Bank, the Marshall Plan exercise was a very important training, but it also demonstrated to my mind the same type of problem that confronted the Bank two or three years later in respect to development loans. The order of magnitude of
financial help which was needed was so obviously beyond the
possibilities and dimensions of the Bank, that with good sense Mr. McCloy, who was one of the earlier debaters of the Marshall Plan—far from opposing, at once recognized that it was a boon to the world and to the Bank to have the major amount of aid forthcoming not from the Bank, which only filled in a tiny intermediate period between the end of the war and the Marshall Plan, and to see that the bulk of the reconstruction aid to Europe should come from outside sources, from bigger capital dimensions. In my opinion, this is the first example of something which characterizes the Bank's position from '49 onwards and even today where there is a healthy development in the Bank, which learned from her experience and which they refused to recognize in the early days—namely, the size of the problem and the size of financial aid is of a type in which the Bank can be the catalyst, can be the intellectual leader or could have been the intellectual leader [inaudible] but its own resources would supply ten to 15 percent of the total amount of aid, perhaps 20, but not the majority of it. And if I may introduce at once a topic on lending policy in the role of the Bank's policy, in the immediate post-war years—let's say '48 and '49—could be characterized by an attitude which I, frankly speaking, thought partly mistaken and partly intellectually dishonest by saying, "The Bank has enough funds. What is deficient? There's a number of suitable projects for financing
and more resources for development are not needed. What is
needed is to have better prepared projects."

This was a major bone of contention, a bone of contention
which is the more difficult to disentangle since it contains a
partial truth, and a partial truth is sometimes more dangerous
than a total lie. Of course projects were not well prepared, but
equally, of course, that was not the really basic proof that no
more capital was needed.

My early discussions in the Bank were [inaudible]
university economist and an economist, the points of view
differed rather sharply from bankers, lawyers and operators, with
presumably many semantic difficulties and exasperations on both
sides, which in a better communication, looking backward ten
years, the majority of these misunderstandings might have been
avoided. My feeling was that approach would be, what I would
call today, a general programming approach and not a single
project approach. That has been very largely recognized in the
Bank. The question is of how articulately it was stated,
verbalized; and the progress in it was undoubtedly established.
I consider the Bank report which recognizes it, the Bank report
on the Third Five-Year Plan of India, published or released by
the Bank or to the Executive Directors a year ago. That was the
first thinking fully and consistently in terms of a program
approach and not in terms of single projects. The field is, of
course, full of semantic pitfalls. There is a contrast between
the program approach and the project approach, and many
difficulties of the Bank's policy and thinking stem from falling into the pitfalls of the project approach, although it was always recognized intellectually that the total situation matters, and a project was correctly considered as part of a bigger whole. Nonetheless, such a Platonic state, when it is part of a bigger whole and then the whole attention paid to the part and not to the whole, had its dangers and its pitfalls which the Bank, in my opinion, in the first phase (by the first phase I mean until perhaps '57 or '58) did not fully avoid. The pitfalls consisted also in the fact that nobody can deny that a good program must be spelled out in projects, not so that one doesn't finance projects, but that the structure and the whole constellation of projects has been envisaged as a whole and one finances, in fact, one part of a total program. And what this label is attached accounting-wise, whether it's an electric power station or something else, should be considered completely secondary.

Now, in my opinion, the trouble was that it was very frequently the primary effort and the primary aid and the primary task, which absorbed all the intellectual energies and work, and the program was recognized but really treated as if it were secondary. So there was an inversion of the roles.

It is almost a psychoanalytical problem why a bunch of intelligent people committed what to an economist (not only to an economist, to any logical thinking person) must be rather an extraordinary shift in perspective in the wrong direction of giving so much emphasis to projects, and I would mention at least
three different subconscious reasons for it. Number one is that the project is certain and concrete. You know what you deal with. The risk appears very much less. This is the way in which banks have been operating. This is the way of a banker's operation which appeals to the business method and therefore is naturally appealing. The economists, of course, say that maybe under the circumstances it is an optical illusion; that what is needed is to create an additional investment project, and that the Bank may think it finances an electric power station, but if this electric power station would have been created anyway out of the local funds in the country and the additional capital which flew in was used, for instance, for the creation of a brothel, then the situation would be that the Bank thought it financed an electric power station but in fact financed a brothel. And this is a somewhat exaggerated example of where this misleading emphasis may lead so that the total policy should be envisaged.

Now, the Bank would of course reply that the total policy of the government was considered, and it was, but it wasn't explicitly analyzed and examined with the idea of what project would be best. And this is the number one reason, as I say, the kind of accustomed business method which appealed to banker's instincts and which seemed to minimize risks.

The second reason, in my opinion, is the fact that in order to have an influence not on a single project but on a country's total developmental policy and investment policy and economic policy, which in my opinion are international development
authorities which I always conceive the Bank should play, you can’t have bargains; you can’t influence a government by giving them $50 million for a project when the total investment in the country is a billion or two billion dollars. And while you could exercise influence in cooperation and friendship if you financed 10 percent or 15 percent or 20 percent of a country’s investment and moreover committed yourself to this partnership of several years, so it’s not only one project but each year for a series of years the Bank will be expected to provide 10, 15 or 20% of total investment, then of course it could be a friend, an ally, a conferee, a corporate, or a counsel, or a consultant in the background. But to have an influence—moreover, to state it sometimes in mistakenly ideological or [inaudible] terms, for the sake of one or two or three percent of total investment, was asking for too much. The emphasis on projects, however, subconsciously or maybe unconsciously—and this is a second reason of this emphasis, I would say—was something which the Bank with its then resources could do. While the financing for several years on the principle of continuity of larger proportions of total aid couldn’t have been done and can’t be done with the Bank’s resources as then or even, in spite of its increase, as now; and this is my point made previously that the situation in respect to developed countries is the same that confronted the Bank in respect to the reconstruction of Europe after the war—that the Bank can contribute a small part, acting perhaps, if it is very advanced in its thinking and promotes new ideas, as a
coordinator, a catalyst, although its own financial contribution is apart, and in exactly the same way in which today the total aid to underdeveloped countries ought to reach something between $4 and $5 billion a year, in which the Bank can contribute $5- or $600 million, which is ten percent of it, which is not an argument against the Bank, but it's a description of reality—the facts of which today are recognized.

When one said, "What is deficient? It is not resources but good ideas or good projects. The Bank has enough capital," Well, the single project idea was something that protected the Bank from the recognition that infinitely more resources and cooperation with other sources of funds would be needed to solve the problem.

This, of course, like all psychological or psychoanalytical reasons is speculation, but this is the way, I, looking backwards on it, think of it today.

Q: Did the Bank in these early days—'48, '49, and '50—not take steps to coordinate its own lending programs with lending programs and granting programs of other organizations?

Rosenstein-Rodan: Well, to some extent, not only in the case of Marshall Plan countries; and it correctly then saw that since a major source of funds came from the Marshall Plan, the Bank's activity in Europe should be minimized. An early example of this type came up with the Italian loan, which has a certain history.
As an example of a different type of activity, it had a funny beginning. The Italian government approached the Bank at the end of '48 to give it a loan for a steel mill at Coregliano of $10- or $11 million. Since I was in Italy and Mr. McCloy asked me to deal with it, I replied in the negative, giving as a reason that the Bank is not an ordinary bank which aims at having a good portfolio of creditworthy loans, but it has the interests of its member states at heart, and if there is a Marshall Plan, Italy could get such finance from the Marshall Plan, which does not all consist of repayable loans. Well, a Bank loan is repayable, so that in a way indirectly it conveyed: "Why did you ask for such a loan? It’s not in your interest." [inaudible] second reason [inaudible] this loan were granted, it will give additional dollars for only an intermediate period of perhaps six or seven months because at the end of the year when the next year’s allocation of Marshall Plan funds for Italy would take place, one would count all the dollar availabilities, because this was not right, but that was the way in which it was done—and among them there would be $10 million from the International Bank, which would thus become a deducting item so that in the end there [inaudible] no additional dollars. Not only would it be repayable, but there wouldn’t [inaudible] additional. But I added then that if Italy tried to solve a problem which is a long-drawn structural problem and a problem which can be solved only beyond the time limits of the Marshall Plan, a long time action program, for instance, in the development of the South,
which for 80 years or 90 years of Italian existence was not solved, and if Italy conceived a long-drawn development program—perhaps seven years or ten years, investing, say, $100 million of their own—into a coherent, thought-out, long-run plan of development in the south of Italy, then the Bank, which said no to $10 million loan request, would have spent favorably for a whole consistent program going beyond the time limits of the Marshall Plan [inaudible] and which presumably would amount in total to ten times the amount that the Italian government asked.

Now, this was perhaps, bureaucratically speaking, -for civil servants—going a little far. But it was authorized. Then ultimately the executive director, who was a very great man of Italy, Francesco Giordani, went to Rome very enthusiastic; and I, in my enthusiasm, said to Mr. McCloy and then to Mr. Black that this will be a historic occasion; that this is something which the Bank always should have gone into like a Tigris-Euphrates Valley is out of Italy, and if bells ring in Italy, that will be quite a program—repeating what Giordani told me. For two or three months there was no reply from Rome at all. And he then [inaudible] inflation conscious and deflationary policy, the Italian government decided that to commit themselves for a period of many years to major investments in southern Italy might have inflationary dangers, and they preferred not to take advantage of the Bank offer, an offer which I don't know at that time, if the Bank would have gone through -- had the Italian government decided to take it, may I add.
A year later there was a letter from the Italian Prime Minister de Gasperi saying that they will consider it, and one of the major battles of the Bank developed in that context. The President of the Italian Republic was an economist, Professor Einaudi, with whom I was well acquainted and with whom I stayed in 1930 and with whom, I was always in contact. He wrote a letter to Mr. Black saying how glad he was that somebody, who was his friend, and who knew Italy like Rosenstein-Rodan, would deal with the Italian problem. And many people from the Italian Embassy started coming. They thought me extremely correct when I assured them that [inaudible] would be dealing with it; in fact [inaudible] didn't know. And when Mr. Black told me that I should deal with it, I said, "Look, there is a problem there. The normal procedure is that the loan mission is sent; the head of the loan mission reports back; that is then threshed out in Washington in negotiations. I can't do that, because, you see, I have a position in Italy of an old friend whom they trust, and it would be dishonest to let the Bank think [inaudible] Italy [inaudible]. If I go to Italy, I would tell the president of the Italian Republic: 'Look, we are old friends. We are university economists and gentlemen. We don't engage in haggling and bargaining. I open my hand. This is what we can do. And you please give instructions of the same time.' But, in other words, I can't be a post office boy if I go to Italy. I either have plain powers to do as I see fit or I don't go."
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So Mr. Black naturally asked: But if you go, what do you want?"

[inaudible] this whole program refers to an issue which I dealt with twice already before in the Bank in disagreement with the Bank's philosophy or with the Bank's articles of agreement saying there must not be so-called local currency loans. Italy is a good machine industry. It would be nonsensical to import machinery, to give loans for that, but deny it to give employment to very good and efficient equipment which has unemployment. What Italy needs are loans, circulating capital loans. Private enterprise in the 19th century never made this silly distinction. It was something which was a brainstorm of the Bretton Woods fathers in a kind of fallacy of misplaced concreteness and an elementary economic mistake. I characterized it as that before. I repeat emphatically that this program requires this sort of handling. Any other would be inefficient, illogical and wasteful. And if I go to Italy, that's what I'll propose."

Now, that was contrary to many people's thinking, notably to the representative of the most conservative business thinker in the Bank, Mr. Garner, and knowing that, I wrote a memo which was confidential and confined to the heads of departments only, which was less politely worded than the previous somewhat academic memorandum on the subject, saying that this is almost elementary; that capital doesn't consist only of capital goods; that the subsistence fund to enable people to work on construction is as productive as any, and to deny that would be
wrong; and whoever sticks to the literal interpretation of this unfortunate local currency article of agreement: this is not a question of a misunderstanding, it's a question of not understanding at all. This was somewhat provocative and had the desired storm effect. It was a lengthy discussion, and I succeeded in convincing the board, with the support of Mr. Black and the opposition of Mr. Garner, that such a loan activity is possible; and so we then [inaudible] Italy.

The loan device was then a kind of economist's loan based upon a multiplier formula whereby an additional investment, which the Italian government obligates research to do, will, via its multiplier effect, increase income. This increased income will result in increased demand, and part of this increased demand will cause either an increase in demand for imports or a fall in the supply of exports, which has to be compensated by a loan. This was the formula which was accepted for the Italian loan, which means it is not tied; it finances the impact of an investment program which the Italian government undertakes; it is not tied to imports of equipment from abroad—in this respect it's quite different from the normal loans--; it's intended to be for many operations. And it was accepted after a long discussion. Certain, how shall I say, reservation clauses or certain covering of the retreat were provided that this near equivalent of this dollar should be attached to some additional projects, which would be supervised by the Bank. But it was still secondary and, as such probably unnecessary, but on the whole it was progress.
I once considered this an important prototype of a type of lending policy much broader, which I hoped would be not only for Italy, but that Italy would pave the way in point of fact.

In the annual report of the Bank of 1951 or '50, this new interpretation of the local currency agreement was expounded. To my knowledge, however, it was only applied once in the next two years, to the Belgian Congo, and otherwise not applied because the innate resistance against this type of loan was too strong.

If I may point out certain obvious nonsensical situations, which arose simply because this local currency clause was there and was suspected and was treated seriously, in Ecuador, in the early 1950s, everybody recognized that a top-priority project would be to put disease-resistant cacao shoots, which were developed by an experimental station in Trinidad, to reconstitute its cacao plantations, which were its main foreign exchange supply, an obvious priority project and nobody doubted it either in the Bank or outside. But, of course, expenditure for planting cacao trees is largely local expenditure for labor and is not eligible for a bank loan. So one had to look at a project of second-class importance to finance that and to provide that a local currency counterpart would be then used for this cacao plantation. So one can find a more complicated way with the right hand around the left ear of how to do it and therefore the worst damages of this philosophy can be avoided, but only at the great expense indirectly, waste of effort, and sometimes also the selection of not obviously first priority projects.
Q: I wonder if I might ask a question about this impact loan justification in connection with Italy. Were you distinguishing in your own mind between the impact sort of loan and the general purposes non-project type loan? Were these two separate issues, or was it all part of the same issue?

Rosenstein-Rodan: I would not accept any general purpose loan unless I had great confidence in the extreme ability of the government saying they will not waste their funds. Or I would justify the so-called general purpose loan as a loan for the program as a whole, whose foreign exchange impact I would indirectly vaguely estimate with a considerable margin of error, so that in a way is ought to be placed and considered in the same situation. And the so-called general purpose loan is a very vague term. It’s, in my opinion, if treated seriously as meaningless as a balance of payments loan. Any foreign transaction has a balance of payments implication, and this term, which is so familiar in bankers’ circles, is to an economist completely meaningless.

Q: How did you feel about the loan to Australia in ’49 or ’50 to finance imports of all kinds of agricultural machinery?

Rosenstein-Rodan: I think that on the whole, especially then, it was justified, but it was justified mainly because as an overall policy the Australian government had then, in my opinion, a good
policy, an economic policy. Precisely because I am opposed to
the single project approach I would not object to this loan. I
might have perhaps objected to giving such large loans so quickly
to a very rich country with a then income per head of $1200 when
we were giving so infinitely less and treating so differently
underdeveloped countries with an income of one-tenth or one-
twentieth this income, especially since it wouldn’t be true to
say that all of the underdeveloped countries had a very
irresponsible or bad economic policy. If one contrasted the
treatment at that time of India and Australia, then on
comparative reasons if Australia then got $50 million, India
should have then have had $300 million. It’s not an objection
against the nature of the Australian loan. It’s rather an
objection to overall lending policy and overall criteria of the
allocation of loans to different countries or types of countries
without objecting to a specific loan.

Q: What you did think was important was that the borrowing
country, particularly if it was quite underdeveloped, had some
program and some assurance that it was going to use this borrowed
money intelligently.

Rosenstein-Rodan: Yes. Let me say as an example that a few
years later, the post-Korean year, India was the country, which
by its extremely rigid monetary policy, had a much lesser
increase in general price levels than the United States; India
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had an increase of three or four percent against an increase of
11 percent in the United States; and it was almost a prototype
and example of the very sophisticated good economic and monetary
policy in contrast to Australia which, in a quite irresponsible
way, allowed the booming wool prices to cause an inflation, the
wool inflation, in Australia, which a sophisticated policy could
have easily prevented by an enormous stabilization and which they
had not either intellectual or political guts to do. Which means
that if one compares the kind of achievement of the two countries
in '51-'52, then India stands as a model and Australia as a case
of irresponsibility. This is only to say that bad economic
policies are by no means confined to the have-nots and not
representative among the haves.

Q: Did you feel at this time that the Bank should be doing more
than it was doing in helping with member countries to develop
programs of economic development?

Rosenstein-Rodan: Yes. And, in fact, two items can be quoted—one,
the general development policy, my insistence that the Bank
is not only a bank, that the Fund was considered a bank by
Keynes, and that in one speech Keynes mentioned that the Bank
should be a company of adventurers doing precisely different
types of policy. I emphasized it very much, and as usual in
discussion, where you want to obtain 50%, you claim a hundred,
which is a psychological problem, because I recognized that the
Bank, even if they had this attitude of mind and this intention, which unfortunately they did not—they had far too little of it--, but even if they had had it, they would have had to be very careful, because issuing bonds in Wall Street has to take into account the mentality of other customers, and this should be a slow educational process which must take necessarily several years. Therefore the Bank ought to proceed in a cautious way, establish its good will and its creditworthiness for its bonds, and therefore even if that was the long-range plan, it would have had to proceed slowly hand in hand with an intellectual educational process of Wall Street, which is, by no means hopeless, but which, in my opinion, constitutes one of the Bank's failures. They didn't attempt to do it at the same time. Today it has a greater prestige and can take somewhat greater risks.

But, if I may continue on this track, what I considered in the 1950s one of the Bank's failures—in other respects it improved very much—is that far from being the leader in development thinking and what should be done for underdeveloped countries, of which the landmarks are the Gray Committee Report and other reports on aid leading up to the last ones, the Bank was conspicuously absent. All the leadership either in good ideas or in bad ideas really came from outside the Bank, discussions in ECOSOC, the United Nations, with some [inaudible] or in other development authorities. They all came from outside the Bank, which is absolutely unnecessary, and which represents
the Bank’s failure in this respect, although the beginnings were quite hopeful. Let me mention one item.

When the Gray Committee Report was written, Professor Ed Mason, who was one of the main writers, came to the Bank and as a liaison officer with the Gray Committee, came out in favor of grants in addition to normal sound business loans to underdeveloped countries. I obtained the authority from Mr. Black, whom I easily persuaded, to state that far from their being any rivalry between grants given from outside and loans given by the Bank, there is in fact a complementarity. In other words, if an underdeveloped country receives certain financial sums in grant money, then this enhances her creditworthiness and makes her eligible for more loans, not for less; and this exemplifies this way of thinking. Let me say that this was one of the issues where Mr. Black was persuaded to authorize a sort of a statement which was very sharply, bitterly and completely opposed by Mr. Garner.

Q: You mean in the sense that Mr. Garner never did feel that grants were justified?

Rosenstein-Rodan: Well, not in the early days, and he certainly didn’t like this statement of the complementarity. The issue was somewhat complicated in the Bank by a considerable semantic problem, that the Bank was in favor of straight grants, but against so-called fuzzy loans, saying that this would muddle the
issue. This is illogical, whether they will give half in grants or half in 20-year loans at four percent or whether they would give the whole of it in loans which have 40 years at four percent comes to very much the same thing. But, precisely because it comes to the same thing, and if the banking community is a kind of anthropological totem and taboo which has no rational justification but is strongly held and precisely because of this year’s mixture of other things, the same equivalent can be obtained. We can make certain values raise [inaudible]. I only mention it because, of course, the formation of IDA in the Bank precisely recognizes the need and necessity of what ten years earlier would have been called fuzzy loans as a consoling phenomenon which shows that intellectual progress is rapidly being made in the Bank.

Q: Could you say just a bit about the organizational structure of the Bank and how this related to these issues? You were in the Economics Department yourself.

Rosenstein-Rodan: I was in the Economics Department myself, and let me say that at that time I perhaps put much more strongly than I would put it today. That was only because if you want to obtain 50, you have to overstate it twice in the hope of obtaining it. I never quite approved of the distinction made in the Bank’s thinking between operators and thinkers, and I stated that, in my opinion, it is not a necessary condition for an
operator not to understand what he is doing, but sometimes it worked as if it were the case. I do not overrate economics, especially the knowledge we have. Economics is a very extraordinary discipline, which is either too easy or far too difficult. Certain things are obvious. To explain in very great detail is still in many cases beyond our knowledge. And this kind of shortened inference from incomplete data may give rise to difference of opinion and indeterminate solutions. But this is not a sufficient reason to consider a kind of normal man with banking experience as being capable of dealing with this extraordinary situation, and this pooh-poohing of economists ... Mind you, there are poor economists and there are good economists. Any such generalization is very wrong. But as then exemplified between the loan department and the economic department, I considered this distinction—as I say, that the operator needn't understand what he's doing and somebody else may supplement and supply the almighty operator—was wrongly conceived; as I say, exaggerated. And I can quote people from the loan department whom I consider more intelligent and better than some of the economic department, but on the whole it was a wrong distinction. And it had this effect—that it led to the reorganization.

But this reorganization, although it might have worked out, I do not subscribe to the so-called science of administration where drawing different organizational boxes and management consultants and so on is in itself decisive. It all depends on
whom you put in these boxes. And in my opinion, it didn’t quite work out simply because in most cases, with two or three exceptions as then put in practice, the economists were put in the subordinate position to inform the kind of loan chief. That was wrong. The coordination between the two—the negotiator, the lawyer, the engineer—was perfectly well conceived. The implementation of it was, in my opinion, wrong; but of course this is a judgment on the whole. I can mention two or three cases where the loan officer was very good, and although he came from the loan department was better than somebody who might have taken his place from the economic department.

It was also oddly distributed. I would say by sheer accident historically two or three rather bright people were in the Europe and Africa departments, which were relatively good. But there was a kind of unfortunate lack of it in the Latin-American thing, which I would say was almost as bad or quite as bad as the U.S. government, and that meant quite a lot in those days.

But even that revision didn’t lead to a conscious rethinking of the whole, how shall I say, development philosophy, the development needs, the program approach and the need for what today is already recognized by other consortia of the Bank playing a coordinating role, although it has a minority as a supply of finance, and thereby becoming far more than only a traditional banker but just only a development authority.
Q: I take it that you don't feel that the importance of economic analysis or particular loan negotiations has improved just because the area departments were set up and the loan department was broken up, so to speak.

Rosenstein-Rodan: It could have. It was intentional in some cases. It has. But it hasn't as a whole.

Q: It depends pretty much on the individual person's personality.

Rosenstein-Rodan: It depends very much on the individual personality, and I would also say that it depends very much on this code for an individual man to come out with ideas which he knows are not sympathetically viewed on the tenth floor. One or two by temperament do it; there is a majority who don't, some with grumbling, the others shrugging their shoulders, and a third without thinking. But this is a very great problem in an organization. I would say that real reforms should not start from below but should start with one of the vice-presidents or two being, so to speak, a minister without portfolio thinking about the Bank policy as a whole. This is something which Dave Sommers might have fulfilled, Sommers exercised a stabilizing influence, was a man in whom everybody had confidence. And let me at once say that at various phases when I look back, I should say that '51, '52, '53 were a low point in the Bank. I consider
these years were promising. One has to allow in a growing organization for teething troubles. The question is how long the teething period should take. After four years I thought they could grow out of it. There was already gradual improvement in the mid '50s. The improvement undoubtedly took place first by an emphasis to make more loans. Whether that is out of a recognition that more should be forthcoming or whether it is simply with a concern for being a good growing concern and having a larger turnover is from this point of view immaterial. Whatever its origin, it led to progress, and this progress cannot be denied. Moreover, with growing experience from different countries and different situations, it gradually permeated and made it possible to have an intelligent, enlightened attitude with respect to India in 1960. However, on an occasion in 1950 I stated once that what happens in Delhi is, in my opinion, more important for the future of the world than anything that happens in London, Paris and Bonn combined. This was viewed as a typically irresponsible statement.

Q: Well, was Mr. Garner's promotion or change to the presidency of the International Finance Corporation in any way related to a Bank program of trying to get the sort of organization at the top which he...  

Rosenstein-Rodan: No. You see, it's very difficult to deal with Mr. Garner's personality, because he has a very great integrity
of his convictions and has a great working capacity. It is a pity that the judgments he holds on economic policy issues and on people, which he holds fully, sincerely, and with great integrity, are in my opinion wrong. It would be wonderful if they were right. But one has to have respect for a man with whom one disagrees, I would say 99% in his basic philosophy, for the strength and working capacity and for the integrity with which he holds his erroneous views.

Mr. Black is in a way a complete contrast. His philosophy is not very deep. He has a great deal of charm on which he relies, and part of his charm also is that he can listen, and one can persuade Black. One only has to sustain this conviction as a kind of sustained process several times because, if somebody else comes then, he’ll be impressed by something else. He is undoubtedly elastic, much more elastic than Garner, and with good instincts, a certain ability or willingness or temperament will take certain views, which he may well refuse to apply generally, and it causes then a certain asymmetry in treating different member states. But on the whole, especially viewed over a number of years, this has contributed to genuine progress.

Q: I guess what I was asking was: did the progress of the Bank’s ability to use economic analysis increase itself after Mr. Garner left the Bank? Of course, you were outside the Bank yourself.
Rosenstein-Rodan: Well, I am quite in contact with many people whom I knew before. I wouldn't say so. I mean there was a general feeling, which was, I believe, more widespread among the governments of certain member states that to have this very conservative man out of the Bank is one of the arguments of why to vote for him as director of the IFC. It led to certain progress, perhaps marginal, but not as much as might have been expected.

Q: Well, could the Bank's recent loans to India, for example, have been made ten years ago?

Rosenstein-Rodan: No, undoubtedly not. Undoubtedly not. But whether it's within the Bank or Mr. Garner or whether it's the combined effect of many publications—the Gray Committee Report, the UN Report on Full Employment, the Stanford discussions, the MIT different publications from here [inaudible] recognized the economics of it were very largely written by one of their ex-members—myself—with the submissions on development, first the Rockefeller brothers, then Mr. Kennedy's campaign and [inaudible] thinking, the proposal about the Kennedy-Cooper resolution [inaudible] Three Wise Men's missions to India and so on. The bulk of documents of public opinion has unfortunately been built up and been created outside the Bank and via its intellectual or moral or political pressure on the Bank, the Bank has followed. My regret is that with proper use, the Bank should have
contributed to the building of this opinion, instead of reluctantly or anyway jumping on the bandwagon. It might have been worse if she didn’t, and, from this point of view, it’s progress, but it might have been the leader instead of one of the camp followers.

Q: You were speaking a moment ago about actual operators in the Bank itself. Was there never a time when the Economics Department was considered an operating department?

Rosenstein-Rodan: Well, you see, Italy by sheer personal accident has this sort of a role, but created all kinds of internal dissension mainly on the kind of label and headline issue. But otherwise it wasn’t. Of course, if perhaps, a stronger role for the economists and the economists in the Bank might have led to the formulation of some policies which the Economics Department didn’t quite come out with.

Q: I understood that Mr. Rist himself came into the Bank understanding that he was going to be in charge of the Bank’s operations.

Rosenstein-Rodan: Yes. You see, Rist was really an early loan department type of man – an intelligent man with a great deal of political tact and understanding of foreign atmospheres, a great operator. He knows a very great deal of economics, almost more
than an operator should do, but neither he himself— it can be
strongly stated in his defense— nor anybody else stated, that he
is an economist. Now, it doesn't follow that an economist should
head the economic department, though I have a prejudice that it
would be better. But it is by no means a hundred percent
judgment.

More important, however, is that it should be somebody with
a push, and if somebody is not viewed with full confidence, if
somebody is the son of a great father, which creates a complex
[inaudible] very acutely conscious of the shortcomings of France
during the immediate post-war period and so on, then if he hasn't
got the temperament of a an adventurer of which Keynes spoke,
then he cannot fill his action. I would conclude that in my
opinion the role of the international civil servant is a very
tricky one and is very wrongly interpreted. A national civil
servant has to accept all kinds of restraints in the expression
of his opinions, in his political action, because he briefs his
government and his government on the basis of his briefs can take
action. So the link is perfectly obvious. This analogy applied
to the international civil service breaks down completely. There
is no world government, and therefore the international civil
servant has nobody to brief who can take action. To accept
therefore all this restraint for the international civil servant
as an equivalent of the national civil servant without the basic
compensation that it can lead to action is a completely illogical
and unnatural position. In my opinion, the role of the
international civil servant is to be an agent provocateur who will force reluctant governments to take action which they otherwise would not take. If he doesn't achieve that, then anything else with the exception of some normal international things like World Health, Postal Union, Code for civil aviation and so on, all other policy decisions would be better done within the governments. This is the role of the international civil servant. It's not the one which is recognized. This makes the role and the status and the life of the international civil servant, in my opinion, very trying, very illogical, very ill conceived.

Q: What you're suggesting is that Mr. Rist was not in your opinion sufficiently aggressive in pushing some of the ideas.

Rosenstein-Rodan: Yes. I don't confine it to Mr. Rist. I would say that several people in the Bank—three or four—with strongly held ideas should have put them in a less polite form, in a provocative form, and caused scenes which would have been productive. The bulk of the higher executives of the Bank (because one cannot expect that in the nature of an organization very much run on hierarchical terms to be done from below), many of them should have been much less well behaved. The Bank is too well behaved.
Q: I guess then what I’m asking is of an organizational matter. How did it come about that Mr. Rist, who was hired by Mr. Eugene Meyer to be in charge of the operating department subsequently in effect got pushed aside and Mr. Hoar and Sir William Iliff really became in charge of the operations?

Rosenstein-Rodan: Well, Mr. Eugene Meyer hadn’t had very clear ideas. He recognized that he’s an operator. He didn’t quite necessarily distinguish that the charter of the Bank at the beginning wasn’t clear whether its economic or the loan department should be so separate. And while it was considered that there might be a switch later on, and for a time being, since there was a problem almost of a kind of English fit of absentmindedness, Rist was given this assignment and he then stuck. But, as I say, I wouldn’t blame him alone. I would blame the bunch of directors and assistant directors of the various departments, who should have been less well behaved.

May I add to it finally as a kind of consideration that in a way the Executive Directors might have played a certain role which they never have. This is a tragic-comedy on 1818 H Street, whereby the Executive Directors in the Monetary Fund, especially in the beginning, considered themselves not only ambassadors of their governments but the arena in which all discussion should take place. And to all intents and purposes they took part in management, which I considered all wrong. It created all kinds
of problems. Perhaps frightened by that example, the Bank fell into the opposite.

Tape # 2

Rosenstein-Rodan: I was speaking about the Executive Directors of the Fund, who were really to all intents and purposes one bad extreme by interfering in day-to-day management, and, with this frightening example in mind, the Bank became almost the opposite. It is almost the opposite in the sense that in order not to interfere they became almost a rubber stamping machine without having detailed knowledge of what happens in the management. They are given reports on the overall issues; they can ask questions; but nobody in the Bank’s staff or in the management committee really feels that they have a very detailed participation there and certainly no initiative or progressive thinking has come from that quarter, although it might have. This is only a statement of fact. There were in the early days several people among the Executive Directors who were capable of progressive thinking; of creative, constructive thinking. One of them, the Polish executive director, Mr. Baranski, who was in the early Chatham seminar, in London [inaudible] and had ideas. The other was a man with a very brilliant mind who didn’t spare sometimes either Mr. Black or Mr. Garner with biting remarks and
became unpopular with them—very wrongly because he's a very good man. He was the Dutch executive director, Mr. Beyen.

Q: As I understand it, very shortly after Mr. McCloy became President, some economists were actually transferred from the economics department to the loan department.

Rosenstein-Rodan: Yes, there were a few transferred. In itself, if the loan department was to operate, the transfer of a few economists in itself would have been a good move. The fact it didn’t work out is connected with other issues. There was another decision taken then which was, in my opinion, a great pity and a great mistake. I had a violent conflict with Mr. Garner refusing to sign his order. And that was that in the economic department, I proposed and instigated a unit which I called "the unit of economic technology," where in agricultural, in metals and in several industrial fields one combined engineers who used their engineering, which economists do not know, what in our terminology you would call the production function. They give the data, and the economist would ask the questions, because my opinion was that unless one could marry the two together into an effective unit, the economist didn’t know enough technology and the engineers, which is not always recognized in American banks, don’t know enough economics; so that only a combined unit would do. And this rather happy marriage of the two was in this first revision, when people were transferred from the loan
department, interfered with. Engineers were taken from what later on became the technical operations department, transferred to the loan department, where they would have been immaterial. But the principle that engineers should operate together in each group with an economist was broken, which in my opinion was a very great mistake.

Q: When was it broken?

Rosenstein-Rodan: In this revision at the same time in 1950—perhaps '49 already; I don't remember. People were transferred to the loan department. There were also the engineers, whereas, as I say, had the engineers been transferred together with economists and not operating as engineers together in this kind of technical operations department, it would have been better.

Q: Was this about the time that General Stack Wheeler--?

Rosenstein-Rodan: It was still before. He came later.

Q: I didn't realize there were any permanent engineers on the staff.

Rosenstein-Rodan: Oh, yes. There were some extremely good ones. There was Mr. Rembert, who was really a first-class man; and we always had one or two men very well experienced in electric power...
and electricity; Rembert on steel and on general industry; Mr. Spottswood and others and a very imaginative man who was only there for one or two years and then left the Bank: Fletcher. He conceived of projects in a very imaginative way. Had they been reinforced with economists with very vast scope. . . An intimate day-to-day contact is needed. To meet on loan committees is better than nothing but not enough.

Q: But the idea of combining engineers and economists in the loan department was related to your own proposal.

Rosenstein-Rodan: Well, my proposal was that I had them there because (a) I took interest in it; (b) being in the economic department could influence it, and this is a relatively new field in which one has to know what one wants. My protest against transferring that engineers should be in operations was not so much against transferring them from the economic to the loan department, although I considered it ill-advised for perhaps personal reasons, but mainly because it separated engineers from economists. If, in point of fact, they transferred more people and retained the principle of engineers having to work with economists and economists having to work with engineers in day-to-day, not only at meetings, my objection would have been less.
Q: There was a time then when economists got transferred back from the Loan Department to the Economics Department. What was the significance of that?

Rosenstein-Rodan: Well, it was partly a question of personnel, partly a question that then certain things were perhaps better done in the economic department, partly a question of one or two who were happier in the other one and having expressed it, and Mr. McCloy at that time acting in a very indecisive way between Mr. Iliff and Mr. Rist. My impression is that he didn't trust either of them fully and therefore was hesitating.

Q: Can you say just a bit about the concept of creditworthiness as it was developed and used in the Bank?

Rosenstein-Rodan: Well, the concept of creditworthiness is a practical concept in the sense that one has to know under what circumstances loans can and will be repaid. I think it's a correct preoccupation and worry of the Bank, although from this point of view a total policy judgment is needed of how much aid from other quarters in the Bank should be forthcoming. I think that the concept of creditworthiness, however, should be evaluated dynamically—by which I mean not the present exports and imports but the result of the investment undertaken by the loan, additional investment made possible by the loan; and its impact
on the future balance of payments should also be taken into account.

Q: And it wasn't.

Rosenstein-Rodan: And it wasn't. In many country reports, even where it was, it had almost to be concealed, and it was surreptitiously infiltrated, a kind of subcutaneous thought. That's one thing. Second and very important where details assume great practical significance is the fact that the treatment of creditworthiness, of how much the proper problem to ask was how much foreign indebtedness can a country sustain in the long run. By which I mean that one should ask oneself whether the balance of payments will enable her to maintain the interest service on the foreign debt they have. But to consider as a test of creditworthiness that a country should repay both interest and principal amortization is in my opinion a fundamentally illogical and wrong statement of the problem—as if the whole of a debt at a certain time would have to be repaid; that is, as if the natural state of a country would be to have zero for indebtedness. This is the same mistake that some people apply to their thinking about the national debt. It's by no means necessary to extinguish a national debt. What is important is to be able to maintain its interest service. Now, in practical parlance, if, as a measure of creditworthiness, you ask yourself whether a country can repay both amortization and interest, then the burden
on the balance of payments is twice that in 20-year loans time as if it were only the interest repayment. In other words, the Bank in assessing creditworthiness should ask herself what level of foreign indebtedness can be maintained permanently and while single loans are amortized, other loans will take their place, which means that a time may be reached in a country where the net lending to this country is zero but the gross lending is still a very considerable sum, refinancing in considering many loans as if they were a long-run revolving fund. This is a very different approach to the creditworthiness estimate, and it's this one which explicitly the bank did not have the courage to face.

Q: Did this come up in the case of the analysis of the relations with Brazil in '50, '51 and so on?

Rosenstein-Rodan: Not specifically but in general. There were papers—I don't remember now whether it was in '50 or '51—in which this principle was tentatively put forward and met with a very explicit indignant refutation by Mr. Garner. The relation with Brazil worked like relations with human beings. Some are fortunate by accident and some are unfortunate by accident. The relation with Brazil was unfortunate right from the very beginning by faults committed on both sides. I mean the Brazilians are not easy to deal with. They have a very great deal of charm but their working hypothesis that God is a Brazilian is a very dangerous one. They commit all kinds of
economic policy atrocities. And the question entirely is how you point it out. If you are already in the position of a friend and adviser and in their confidence, you can say a lot. If you are not, then you cannot. The Bank took a high-handed view and not a very psychologically or politically felicitous position, and in 1952, the Vargas government suddenly introduced over a weekend legislation stopping the transfer of dividends. The Americans in Rio, certainly not a progressive body, the Chamber of Commerce in Industry, were saying, "We know Brazil. The one thing to prevent is another protest from Washington. We'll make it irreversible. We shall deal with it only [inaudible] outside pressures." But very unfortunately, Mr. Black or the State Department sent a strong note of protest, whereby the policy became shifted to a completely different plane. These are purely psychological issues. As I say, in the content the Brazilians in many respects (this is not the gravest of their misdemeanors) have been in the wrong, but in the form it wasn't made any easier by the others.

Q: But this wasn't particularly related to the question of creditworthiness.

Rosenstein-Rodan: No, it was not. Although with the very heavy indebtedness of Brazil, the method of estimating didn't matter very much. Let me say that the mistakes of Brazilian policy later were such that even if the intelligent method had been
applied, the creditworthiness might have had its limits. But the intelligent method was not applied.

Q: Would you care to comment on the Bank's rigid policy, insisting on the repayment of all past outstanding debts as a condition for establishing creditworthiness?

Rosenstein-Rodan: Well, this is a matter of what I consider a kind of anthropology of the folklore of industrialism. The question is of how it is handled. Perhaps the principle of sanctity of contract, I recognize, is an important one, and that attempts to negotiate rather than to settle should have been made more explicit. If there are some countries who contracted loans in the 1930s, a great depression hit them afterwards, there was a series of bankruptcies throughout; but if they are now very much better off—a lawyer’s idea that they should repay all the principal in their accumulated defaulted interest doesn’t make any sense whatsoever. They should make a token corresponding to their capacity to pay and in open negotiations recognize that there is a problem. The difference may be that the Council of Foreign Bondholders might ask for a hundred, and the country should offer a repayment of ten and a compromise at the level of twenty might be reached—might not be reached, but I agree that the country should make a kind of effort to develop ten. Again it’s a problem entirely of how you put it and how much emphasis you say that you should at least try to negotiate, be willing to
settle, but necessarily that you should settle. In any judgment it's how it's done. I approve of the principle. It's a question of the degree of what emphasis is put. But to reestablish a certain amount of creditworthiness wasn't necessarily handled in the most sensitive and felicitous manner.

Q: Are there any final comments you would care to make?

Rosenstein-Rodan: In my remarks I concentrated on criticisms rather than appraisals mainly because criticisms point out defects. Criticisms are news, and approval in general doesn't really convey any information. But I would like to point out that in the integration of the various partial derivatives, it would be a very great mistake to infer that the three basic failures or the three criticisms that I made—that instead of leading in development thinking, the Bank reluctantly followed; that it took ten to eleven years to proceed from project approach thinking to program approach thinking as a second; and that in the third tentative the function of the Bank to be not a bank but an international development authority on the one hand and a leader in educating public opinion on development needs and as part public opinion also notably the banking quarters in Wall Street, where a preparatory period of four or five years was necessary, but in my opinion it took perhaps too long. These are three serious criticisms. But the sum total of them does not add up to the conclusion that the Bank was a failure. On the
contrary. I mean to put the sense of proportion right, the Bank is perhaps the most successful international organization. It has increased its volume of lending. It has acquired a certain elasticity and new experience which has enabled her—I think perhaps too slowly but better late than never—to establish vital progress. Her whole attitude to India, the role in the consortium, the India report, the viewing of the program as a whole rather than the single parts are an instance of it. So that in spite of these misgivings and single criticisms, the Bank is on balance a success story and not a story of a failure. The criticisms I mentioned were in order to see how it can be improved, to point out that it’s a great success, but on balance, and it could have been greater. But there are all the basic ingredients, with its prestige established, that it should go on improving and notably, that it should also take a wider part in being advisers even when it doesn’t finance or doesn’t finance the majority of finance under development programming.

There are very important institutional programs. One of such instances, which I consider a good initiative of the Bank, were the economic surveys. I think they could have been more courageous and more radical, but again it’s a step in the right direction. Whether the Bank, now planning an advisory service, can establish an advisory service that will be really independent and not be suspected, rightly or wrongly, of being too narrowly wedded to the Bank’s particular approach is a very difficult problem. It’s certainly again not a question of administrative
boxes and arrangements but of a type of people, although these people should be above suspicion of being connected with any one department of the Bank or being on instructions from certain heads of departments because that would, in my opinion, interfere with effectiveness.

But the purpose of all my statements was to distribute the light and the dark features. On the whole, it’s a light gray and not a very dark picture.

Q: One personal question. Were you yourself anxious while you were in the Bank to be left alone apart from the operations of the Bank so that you could devote yourself to high level policy thinking? Sort of academic policy thinking?

Rosenstein-Rodan: It’s a very good question. One can in one structure of the Bank confine oneself to policy thinking if this policy thinking wouldn’t confine one to an ivory tower. It’s entirely a question of the structure and organization—of whether any policy thinking would be seriously discussed with a view to implementing it or whether one would become a kind of ivory tower man without influence on actual policy. If the latter were the case, then one would do it better in a university than in the Bank, which means a certain connection or certain influence on operations, so that it should not only be Platonic thinking, is undoubtedly required. It illustrates the difficulty. It’s no good having backroom boys in a research department or in an
economic department who may philosophize and not influence practice. This bridge between thinking and operating—or I might say the economics of development must be operational economics and not philosophical economics.

Q: So whereas you personally were not so much interested in doing direct negotiations with member governments, you were anxious that your policy recommendations would be paid a good deal of attention to.

Rosenstein-Rodan: Yes. The negotiations should be conducted in a certain way with a view to certain objectives and certain overall activity. It would have been useful, in my opinion, to announce this certain basic criteria of development policy in general to single negotiations with partial approaches to provide a framework for the negotiations. Once that was created and felt and an attempt was made to implement it, my personal interest in conducting negotiations would have been infinitesimal.

Q: Would you care to comment on the international versus the American character of the Bank as such? Should the Bank have become more international in its staff?

Rosenstein-Rodan: Let me say that there is a problem there. There are two problems. In the beginning—by which I mean until the first ten years of the Bank—one thought that the overwhelming
majority of the capital will come from the United States. Keynes himself conceived of the Bank as an instrument of a very much richer country. The instrument would transmit and transfer in a functional way the surplus to the poorer and underdeveloped parts of the globe. I took the line that in order to fulfill this job well, even if that were the case, the international character of the Bank should be very strongly emphasized because this is the only way in which the Bank could acquire the confidence of underdeveloped countries. Let me say a great deal of care is taken to have an international composition of the staff, and I welcomed the idea that it is not as mechanically, may I say as unintelligently and mechanically applied, as in the United Nations. In the United Nations this is really one of the major frustrations and major wastes.

Nonetheless, partly by the default of the Bank but only partly, this has not worked out very well in the sense that the overall statistics of what the nationality composition of the Bank, the working staff—not administration, are misleading. In view of the hierarchical nature of any organization, somewhat more in the Bank, what really counts is a staff-run committee membership and the members of the heads of departments. Among those the proportion of Americans is quite abnormally high. It would have been too high even when 90% of capital was forthcoming from the United States, and the division is such today that at best perhaps 60% will be forthcoming.
Now, this is, nonetheless, only partly the Bank’s fault because immediately after the war there is no denying the fact that better Americans were offered to the Bank than non-Americans, and that in point of fact, many non-American nationalities—I mean people with dimension, with push and with horizon—were not very frequent. This is a partial excuse. The line of minimum resistance at any rate was to have the good ones and among the good ones the proportion of Americans was very high, which even in an administration which had no national prejudices, would have to be taken into account.

Nonetheless, again, a very much more vigorous effort to try to recruit differently would have produced some non-Americans in positions of heads of departments. There, of ten or eleven members of the staff-run committee, which is the top committee in the Bank, even the existing ratio of, let us say seven to four, is very much misleading because the non-Americans were again much less forceful that the others. And it took a greater effort to assimilate fully into the management thinking four or five, and not three or four, non-Americans should be possible. It still remains a possibility.

Q: You mentioned at the very beginning of your remarks that the British government wanted you to come to the Fund rather than the Bank because they thought the Fund was going to be the more important.
Rosenstein-Rodan: That was the Treasury thinking. They were confronted with the choice of several people. None of course is sent by the government. The government through its high officials talks to the prospective candidates who are then appointed by the Bank. But the thinking in London in those days was very sharply Fund-oriented rather than Bank-oriented, which was wrong and which the British government only recognized around five years later in 1950 and '51 - that the Bank would be at least as important, but not in the first five years.

Q: The question I was going to ask was: Was this appraisal of the relative importance of the Fund and the Bank that you’ve described similar in other European countries, and does this perhaps relate to the question of finding good European people to be on the staff of the Bank?

Rosenstein-Rodan: No. I don’t think this relates to finding good people, because it would be wrong to say that the personnel in the Fund was very much better. Moreover, the positions in the Bank and the Fund in the early post-war years were at least financially much more attractive to Europeans than they are today. You see, today in the very thin market of development economists, two or three institutions, the OECD, the Common Market, if they just appoint 50 people, they preempt 90% of the available forces in personnel. And it is in Europe, which is more attractive to Europeans. And their pay is not lower than
the Bank or if so, only marginally, not corresponding to the real income’s purchasing power. So, in point of fact, the Bank positions are not as competitive and as attractive today as they were ten or twelve years ago.

Q: And not as attractive as important positions in Europe today?

Rosenstein-Rodan: And perhaps not as attractive, although it remains what one is doing. From this point of view, it is difficult. Nonetheless I still think it’s very important, and I don’t think it’s impossible.

But as one feature, since I concentrated so much on criticisms, let me add that there is a certain serious conviction among the majority of the people in the Bank that the number of cynics who shrug their shoulders and consider this is their job and that other issues are of no importance, this cynical attitude is conspicuously absent. This endeavor to do something constructive is perhaps on balance the most promising feature, and the absence of cynicism is at the same time the best measuring rod of how to put the criticisms in proportion—that they did not produce, how shall I say it, a rottenness to the core.

Q: The one last matter I can think of that you might want to add a bit to is more comments about the before-Bretton Woods
conversations in London with the governments in exile. Was there much discussion of the Bank as distinct from the Fund?

Rosenstein-Rodan: Yes, there was much more discussion of the Bank than of the Fund in this early development largely under our influence. The idea of proceeding was entirely based, as I described in my article of '43, which was a basic document, on a programming approach. One really considered the Bank action and International Development Authority action like a huge investment trust in which certain projects would not be fully paid and others be paid; external economists would be internalized, and the whole action was considered on the lines of a huge investment trust for a country, which exemplified its thinking.

Q: Was this a published article?

Rosenstein-Rodan: It was a published article which has been reprinted many times and which many people consider the beginning of a kind of modern development theory. It was a basis for a kind of practical experiment in thinking.

Q: Where did that appear?

Rosenstein-Rodan: That appeared first in the Economics Journal in 1943. Being a very distracted person, I don't remember the numbers; but it's been reprinted in so many anthologies that it's
easy to find. It's entitled somewhat misleadingly "Problems of Industrialization of Eastern and Southeastern Europe."

Q: I'm aware of that title.

Rosenstein-Rodan: That was really a general development theory applied to a problem... Well, Eastern Europe served as an example of the general thinking and not necessarily as the main purpose.

Q: At the time you were writing that article, were you aware that plans were underway for what later became the World Bank?

Rosenstein-Rodan: Well, let me say at that time they were not. It was in a way a contribution towards it and it was intended as a contribution towards it. The article was first written as a memorandum somewhat longer than what appeared in the *Economics Journal* in the fall of 1942. Some beginnings of the Clearing Union thinking took place then in London. The Bank was not yet thought out. And to my knowledge, the kind of systematic thinking about the corresponding investment organization against an organization which would deal with overall liquidity and secondary reserves only started a year later.

Q: You weren't aware in '43 that the American Treasury Department was working on plans...?
Rosenstein-Rodan: Yes, but that was '43, and that was, as I say, only a year later. In the fall of '42, to my knowledge neither in Washington nor in London was there any systematic thinking about the World Bank, the National Bank, the International Investment Authority. It was just beginning. And historically, the thinking about the Fund started both in London and in Washington somewhat earlier than on the Bank.

Q: After your article appeared in '42, did you then talk to Keynes in person?

Rosenstein-Rodan: Well, I was in very good touch with old economists and with Keynes already pre-war and during the war, because we were all very busy and he was infinitely busier with day-to-day affairs and with what he ended with—preparing the clearing house project and the white paper on Bretton Woods. But let me say that most of the English economists two notably... Most of the English economists with very few exceptions, exceptions of General [inaudible] and Hyatt [inaudible] were in government—more or less full or part-time government service. Among those two who at once took very much to this programming for underdeveloped countries approach were two. One was Keynes and the other was Sir Hubert Henderson. They were the two who took up with great enthusiasm this idea, which today is generally accepted and part of what I would almost say is orthodox economics, but at that time was somewhat heterodox.
Q: Do you feel that your suggestions in this field helped to persuade Keynes that the Bank as such would be a good idea?

Rosenstein-Rodan: Well, he, undoubtedly, would have had it without it, but let me say that the kind of historian's approach of what is a calendar or diarist's approach is not the historian's approach. The historian, in the history of ideas, should look at what was in the air and who happened to crystallize it first is, in my opinion, almost a matter of accident. I happen to have formulated it relatively first. Several people were thinking it was the way in which modern economics was moving. I mean whoever happens to crystallize it on paper should not claim too much merit for it because he's a product of his epoch, of his environment, of his time, of its atmosphere. It was a coherent group of several people in which whoever formulates may just cross a T at a different angle and thereby contribute, but it's not a Copernican revolution which creates something out of nothing, although in the history of ideas even Copernicus was not quite that prototype in this full naïve view of someone who created something out of nothing, which is a myth.

Q: Would you care to comment on the occasions for your leaving the Bank?
Rosenstein-Rodan: Well, it's a long story. It's not very relevant.