

**WORLD BANK ORAL HISTORY**

**INTERVIEW WITH  
DR. ERNEST STERN  
SENIOR VICE PRESIDENT FOR OPERATIONS**

**on the  
PEARSON/BRANDT COMMISSIONS**

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**Interview by: Patricia Blair**

**BLAIR:** Today is Wednesday, March 2nd, 1983. My name is Patricia Blair. I have with me Dr. Ernest Stern, the World Bank Senior Vice-President for Operations. Ernie, you were educated at Queen's College and at the Fletcher School of Law and Diplomacy. You joined the World Bank in 1972 as Senior Advisor on Development Policy and you have been with the Bank ever since. Before that, you held various posts in the United States AID Missions to India, Pakistan, and Turkey and, later, you were Assistant Administrator for Policy, Planning, and Coordination for AID. Between AID assignments, you were Deputy Director of the Pearson Commission staff and, thus, technically, a Bank employee as early as 1968-1969.

Today we will focus on the importance for the Bank of two major international commissions, the Pearson Commission of 1968-69, and the Brandt Commission, a decade later. Perhaps I should begin by asking you what you can say about the Bank's connection with the Pearson Commission and the Brandt Commission before and during the preparation of their reports. Of course, both Commissions were created at the suggestion of Bank Presidents, George Woods and Robert McNamara respectively. The Pearson Commission was actually financed by the Bank and reported to President McNamara, whereas the Brandt Commission was more independent. How much Bank involvement would you say there was in planning, staffing or shaping the Commissions during the time they were at work?

**STERN:** First of all, let me say that certainly the Pearson Commission was a long time ago. My memory, as with most people of advancing age, is less than perfect. I've done no research. These are recollections and may not turn out to be historical facts.

I think the involvement of the Bank in the Pearson Commission was stronger than it was in the Brandt Commission in the preparatory phases. Both the suggestion and the staffing for the Pearson Commission were done with more help from the Bank. The logistical support of the Bank was direct. But, I think it's fair to say that once the work of the Commission started, there was no interaction with Bank management or any real consultation with the Bank, except for specific issues on which staff members wished to get Bank wisdom and experience.

From the outset, although it had been established by the Bank and was exclusively funded by the Bank, the Pearson Commission felt very strongly that its role was to be an independent one, that it should not perform a kind of in-house exercise, that it should be free to tackle anything and come to its own conclusions. I think we kept to that pretty well. Nonetheless, even in its work there was more involvement, since the Pearson Commission was quite heavily staffed by former Bank members or then Bank members on deputation.

The membership of the Brandt Commission was very much broader compared to the Pearson Commission. That Commission was established in response to a call from the Bank, but it wasn't financed by the Bank. The Bank relationship with it was not very intimate. We did do a lot of work on request on specific papers, but it was more of an

arms-length relationship. The percentage of Bank members, past or present, who were staff members of the Brandt Commission was certainly less than it was on the Pearson Commission.

**BLAIR:** Did you have the impression that somebody was carrying Mr. McNamara's ideas back and forth to the Commissions?

**STERN:** Well, certainly that wasn't the case with the Brandt Commission. As far as the Pearson Commission is concerned, I think Mr. Pearson himself was interested in talking to Mr. McNamara from time to time. Our Executive Director, Mr. Hamilton, certainly was interested in doing that too. Still, I think that was very intermittent. The staff had very strong views on its independence. I don't really know how frequent these conversations were, but to the extent they took place, by and large, they were certainly not of the character of carrying messages or suggesting conclusions that ought to be arrived at. Anyway, that wouldn't have been possible given the way the Commission was structured and I don't really think that there was much of an attempt to do it.

**BLAIR:** What can you tell us about the arrangements that were made for follow-up? I realize that you weren't here right after the Pearson Commission report, so you may not know much about that. But I gather the arrangements for both the Brandt and the Pearson Commissions were similar?

**STERN:** That's true, although I think they were certainly more complete for the Pearson Commission. When the Pearson Commission made its report, Mr. McNamara made the decision that each recommendation would be carefully considered and the conclusions presented to the Board, and that was done. They weren't all accepted, but a great number of them were endorsed. Some had direct bearing on then current Bank operations, others had a longer term character.

In the case of the Brandt Commission, there wasn't that initial pledge. We did review the Brandt Commission Report when it came out. But one of the problems, or one of the major differences, was that the Pearson Commission was more sharply focused on aid matters and aid flows, on how they should be managed and allocated and, also, to some extent, on how the Bank ought to operate.

The Brandt Commission Report was very much broader. It covered not only aid flows, but all capital flows, trade, investment, technology and so on, and they made a very large number of recommendations. We didn't take all of them to the Board. We selected some twenty-three or so, on which we promised to submit papers to the Board and that process did get started. The Board, I would say, did not show great interest in the Brandt Commission's recommendations. Why that was so, I'm not really sure. Some of them, perhaps, were too general. At the other end, there were some which were very specific, such as whether or not the Bank should have more field missions. The Board didn't think that the time was particularly propitious for a review of that issue. We had some discussions in the Board, but a lot of the issues were left unaddressed. Then finally we

did a wrap-up paper for the Board's consideration which we submitted to the Development Committee. But certainly, the detailed attention that the two Commissions' recommendations got was very different.

**BLAIR:** Did you sense that there was a difference in the reaction to the Brandt Commission Report from different Directors in terms of those who represented developed countries and those who represented developing countries?

**STERN:** Well, maybe some. Of course, there was a general interest in the Brandt Commission recommendations. They were, as you know, very broadly cast in terms of North/South relationships and many of them were at a very broad policy level. Those recommendations or that general thrust certainly were very much supported by, I think, most of the members of the Board, and perhaps a little bit more strongly in Part II countries than in Part I countries.

But the very broadness of those recommendations also made them seem somewhat less relevant to actual things that the Bank could do with its existing tools, or even with changed tools. I think the Board was reluctant to get into issues like the political aspects of aid allocations or the question of political pressure on the Bank or things of that nature. I don't think this reaction was very different among the different groups represented on the Bank Board.

**BLAIR:** I'd like to get into some of the specific recommendations a little bit later, but would you say that the follow-up process within the Bank was useful as a process? Was it useful for focusing issues?

**STERN:** At the time of the Pearson Commission, I think the recommendations which were made hit a very responsive chord. It has often been said that the Pearson Commission came at the tail end of an era of very direct concern with aid and its administration, and that its report was passed by the time it was published. Perhaps that's true to some extent. Its focus was narrow, but its benefit, as far as the Bank was concerned, was that the issues it discussed were seen to be quite relevant. Where there was acceptance of them, they bore directly on Bank operations. I think they had a significant longer-term impact on Bank thinking, even where there was perhaps only agreement in principle.

But the Brandt Commission report was issued at a time when the climate for aid and, indeed, the climate for a productive North/South relationship wasn't very good. I think on the whole, the report was perceived in the Bank as more political than economic. There were lots of differences of view about some of the basic thrusts such as the discussion of food policy, where we thought the recommendations were essentially mis-stated and didn't take account of what had been happening.

And so, I think, there was both less relevance perceived and less general support for the issues which were raised because the differences of view were significant. I don't think this was the case with the Pearson Commission's recommendations.

**BLAIR:** What about within the staff? You were talking mainly about the reaction of the Board.

**STERN:** I really meant the staff. I was talking about the staff's reactions.

**BLAIR:** One of the main aims of both Commissions was to improve the climate for aid in general and IDA replenishment in particular. Did you sense that either one or both had any success in this area?

**STERN:** I think that's a very hard question to answer, since any Commission can only produce a report and that's only a piece of paper. The yardstick of how you judge success is a difficult one.

I think the Pearson Commission report was very widely welcomed, not only in the Bank, but generally. It did lead to a lot of discussion. It did raise interest in aid matters and it did raise concern about relationships with developing countries. I think in a way it did give a push to IDA negotiations, the role of the Bank or the role of multi-lateral institutions more generally. But, of course, a lot of this is related to the environment in which it came and many other factors were also at work.

In the case of the Brandt Commission, the reception was much more mixed outside the Bank. It was very popular in the Netherlands. I participated in its presentation there, and it was astonishing. Thousands of people jammed into a hall on the first sunny Sunday of the year, instead of going to the beach. They had to pipe in the discussion to subsidiary halls. That kind of interest simply didn't exist in the other industrialized countries. One couldn't even conceive of that kind of interest in the United States. It got a very bad reception in some countries, such as the U.K., at least at the government level, although there was a strong interest at the public level. In the other industrialized countries, it got a very mixed reception. That was very much due to the broadness of the report, its scope. It touched on many, many issues and some were deeply political in terms of the countries' own strategies. Also, the recommendations were deeply political, coming, as they did, at a time when North/South negotiations were on the table and weren't getting anywhere. That really meant that the report, even the less political or more pragmatic and operational recommendations, kind of got brushed aside, as part of this general reaction.

**BLAIR:** Both Commissions made suggestions for effectively enlarging Bank funds, for raising the gearing ratio, for co-financing, and for joint financing. Was this useful, was this something that the Bank might have gone into anyway?

**STERN:** I think the analysis and the recommendations to expand financing for the Bank and for other multi-lateral agencies were helpful. In the case of the Brandt Commission, they came at a time when the economic environment was terrible and I think it's very hard to say that they had any impact whatsoever. That's not necessarily the fault of the Commission's recommendations, but they certainly didn't have any impact, they didn't help.

The other kinds of recommendations such as co-financing were introduced in the Bank long before the Brandt Commission and I don't think the Brandt Commission's recommendations added much impetus. The co-financing program was being expanded very rapidly anyway at the time of the Brandt Commission. It was, of course, useful to have it endorsed as a useful device and it may have had some bearing on the willingness of co-financiers to participate with us.

**BLAIR:** Insofar as there was any success in this general aid climate area, would you say that this was because of the persuasiveness of the argument of the Commissions or the eminence of its members or what?

**STERN:** It's those things and others. I think an important difference between the Pearson Commission and the Brandt Commission was certainly in its membership. This also was no doubt a function of the times in which they operated.

In the case of the Pearson Commission, it was essentially a Part I membership with two or three members from developing countries. It had as its objective very much the addressing of the aid climate, but specifically aid, not so much trade and investment flows and other things like that. It was therefore received by the industrialized countries more or less as a group of senior statesmen, from their own circle, speaking to them. I think, in that sense it had the good receptivity I mentioned earlier and therefore I think it had some impact in terms of willingness to listen and, perhaps also, increasing the willingness to act.

The Brandt Commission membership, as you know, was very different. They tried to balance it regionally between North and South. I think that, because of its membership, it was perceived as a kind of mini-UNCTAD. That's perhaps not a very fair way of putting it, but I think it's a fair way of describing the perception.

A lot of the issues that were discussed in the Brandt Commission report, and the way they came out of it, were seen as representing essentially the Part II country view in UNCTAD. I think that very much underlay the reception it got.

**BLAIR:** Would you say that the Commissions had either a positive or a negative impact on the international credit markets on which the Bank depends?

**STERN:** No, I don't think either had any impact.

**BLAIR:** You remember that both Commissions had a good deal to say about Bank policy and practice. I'd like to turn to the more specific aspects of their recommendations. A lot of their recommendations were things that presumably were already under way in the Bank. How many of their recommendations were new? How many made a difference? In other words, would the Bank have been the same institution if the Commissions had never existed?

**STERN:** Again, I would draw a pretty clear distinction between Brandt and Pearson and not only because I happened to have been associated with the Pearson Commission, because at that time I wasn't in the Bank.

I think the Brandt recommendations had almost no impact on Bank policy. The Pearson Commission recommendations did, I think, have a significant impact in such areas as program lending. To take that as an example, they recommended that the share of program lending ought to be increased by ten percent, or something like that, and that was in fact, incorporated in the Bank Policy Statement as a suggested order of magnitude. It is true that the Bank didn't reach that level of non-project lending for some time, but that target or that number is still around.

When we did do program lending, it was less contentious when we were within this limit. More recently, when we started our structural adjustment lending, which was of course, a long time after the Pearson Commission, that same figure was still seen as a relevant number to judge the structural adjustment lending program against. We have now reached the point where the Board, I think, has accepted that we could exceed that limit temporarily because of the present world economic recession. But we have moved up to that level, and I think that really can be traced back to the Pearson recommendations.

**BLAIR:** I see Brandt was suggesting up to thirty percent.

**STERN:** Yes and that doesn't seem to be in the cards at all. I would say the same thing is true with questions of recurring cost financing, local currency financing and local cost financing. These were things that the Bank had been doing, even at that time, and we have expanded considerably since. This was not just due to the Pearson Commission recommendations but, certainly, they helped in putting these issues on the table. They did create an initial impetus for the Bank to have a look at them and see whether the then existing policies were sensible, whether they ought to be relaxed and be made more flexible and, I think, over the years they have been. The start of what became a much more extensive debate, I think, really can be traced to the Pearson Commission recommendations.

**BLAIR:** How about sector activity? Pearson emphasized areas like population and research. I know that the question of supporting the agricultural research institutes (CGIAR) came up shortly after the Pearson Commission Report. Do you think that those suggestions had any impact?

**STERN:** Many of these things have several fathers and mothers. There are so many different roots that it's hard to trace the various impacts directly. For instance, on the research side, the emphasis or stress that was given to research was in those days relatively new in terms of aid programs. In the Bank I think, Mr. McNamara used the Commission's recommendation to do what certainly he had wanted to do, which was to have the Bank support more research out of its income, or, perhaps, at that time, his thinking was more inchoate than that.

It clearly gave a boost to things like the Agricultural Research Institutes, but since then we have also moved very much beyond that to support the River Blindness program in West Africa. That's not directly traceable to Pearson, but the Pearson Commission recommendation set the right climate for that sort of thing. Also, it laid the foundation for his thinking that the economic research program ought to be created and rapidly expanded. It never reached the levels that I know he thought were appropriate but, again, I think the Pearson Commission recommendations really gave a boost to that program, which has now grown to what I guess is about fifteen to twenty million dollars per year.

**BLAIR:** In a speech to SID the other day, Hollis Chenery said that the impetus for the Bank's "new directions" program, with its poverty-related focus, could be traced to the Williamsburg Conference, which was called by Barbara Ward and others to discuss the Pearson Commission recommendations. As you remember, a great majority of the delegates to that Conference signed the "Columbia Declaration", expressing unhappiness with the Commission's limited outlook and calling for "new criteria" for aid that would address "the living standards of the bottom quarter of each country's population." Is it also your impression that the Declaration was pivotal?

**STERN:** I don't really know. Bob thought highly of Barbara and it's quite possible that he picked up these ideas via her and the Williamsburg Conference. Hollis was much closer to the process then and knows much better than I the Barbara Ward - R. S. McNamara link.

**BLAIR:** On the question of debt renegotiation, both Commissions seemed to feel that the Bank ought to move more closely into that kind of process.

**STERN:** That's always been a very difficult issue for us for the obvious reason that we don't renegotiate our own amortization schedules. Over the years, we have moved very much, I think, in line with what both Commission reports had suggested: that we do become more involved, that we help countries in debt negotiations with the Paris Club and, in some cases, even with the commercial banks.

Certainly a large part of that was driven by the problems that countries began to encounter in today's world. There is a long list of countries in the process of debt rescheduling or, at least, debt discussions. In response to these problems, the Bank has become very, very much more involved, both in the actual renegotiation discussions but, also, in helping countries to build up the debt management capacity and the analytical capacity to look at what is a reasonable level of debt. Looking back, it's really more the economic situation which drove that trend than any specific recommendation by either Commission, but it's very much in line with what they suggested.

**BLAIR:** I remember there was considerable talk that what the Pearson Commission recommended on aid allocation, that IDA ought to step in and make up for the failings of other donors, was politically naive. Is that your feeling as well?



**STERN:** I think the Commission was right. It's also true that it was probably politically naive. Aid allocation continues to be a problem. The allocation of very scarce concessional funds is still heavily skewed to the wrong countries, namely to the middle income countries. Donors don't take into account, at least with the sense of priorities that we would have, as to where these very scarce funds ought to be channeled.

Still, I think the Pearson analysis was really one of the early ones which focused on this issue and, although progress has been slow, too slow, it did trigger years of further analysis in the DAC as to how these funds ought to be allocated, and allocation questions did receive continued attention by the Bank in several of Mr. McNamara's annual speeches and in the World Development Report. The concept that IDA ought to be the offsetting balance has never been accepted, and that certainly was politically naive. It would have been difficult for countries to implement anyway.

But what I think did come out of it is a willingness to look at the allocation criteria and see whether the resources could be less skewed to the middle income countries and more heavily concentrated on the low income countries. In that sense, IDA really led the way by concentrating increasingly sharply on the low income countries. I think that whole train of thought can be traced back in part to the Pearson Commission.

**BLAIR:** You know, I may be wrong but I get the impression that the Bank had the most trouble with recommendations that related to its own administration and its own place in the spectrum of development agencies. You remember that Pearson recommended that IDA have a different administration from the Bank.

**STERN:** Right.

**BLAIR:** Brandt suggested a new World Development Fund with greater voting powers for the developing countries. Were these just plain bad ideas or was there an element of self-protectiveness in the Bank's reaction, or what?

**STERN:** Well, I don't know. It's easy to say it's self-defense and perhaps that ought not to be neglected as a cause. I think the Pearson recommendations to separate IDA were intended as a way to protect the IBRD itself from being tainted as an aid agency since its terms are not really concessional. They thought it would be better if that distinction were clearer and, on the other hand, it would also serve to create a clearer basis for support for IDA.

I think the latter point was in fact a misjudgment. The extent to which IDA grew the way it has, was because of its very close association with the Bank, not so much at the lending and operation level, but its association with the Bank's status and prestige, and the ability of its management to deal with major policy makers in industrialized as well as in developing countries. I don't think an independent IDA could have gotten as big or as effective. It wasn't a wrong recommendation, if you will, but I think it was a misjudgment as to how useful it could be and it ought to be seen in the context of a suggestion of raising resources better.

I think the Brandt Commission recommendation for a World Fund is in a similar category. I don't think anyone in the Bank would object or would have objected to the creation of such a Fund if they could have seen where the money was going to come from. As far as I remember, the paper that was written about this certainly didn't object to the concept, except to note that it came at a time when we were unable to obtain an adequate replenishment of IDA. We had great difficulty in carrying out existing IDA commitments, the Bank's capital was under severe pressure, and the regional development banks were under similar pressure. Our assessment of industrialized countries' willingness to provide the capital for a very large new institution was pretty close to nil, even if you added in the OPEC countries, and even if you allowed for the possible interest in having an institution with somewhat different voting rights.

In that context, we thought there was a real risk of competing for scarce resources and, not only competing for those resources but, by holding out the prospects of negotiations on a large new fund, leading some of the major industrialized countries to say: "Well, we won't increase the IDA or the Special Fund of the IDB or whatever, because now we're in discussions on this other thing," and that other thing might never have materialized. So, there were these very real concerns. But I don't think they were essentially defensive concerns. I think they were at least based on a realistic assessment of what major shareholders would be willing to contribute. Now, the assessment may have been wrong, but I think that's basically where it stemmed from.

**BLAIR:** What about recommendations like Brandt's for greater involvement of Part II countries in management of the Bank and in upper staff levels?

**STERN:** Well, nobody disagrees with that and what the Brandt Commission had to say about it was hardly news. For a long time at the Bank, we have had, to use a piece of American jargon, "an affirmative action program" at all levels. We've tried very hard to diversify Bank staff because our mandate is to have staff drawn from all of our members, not in exact proportion to anything like the GNP or the voting rights, but to represent the different cultures, economic philosophies and skills of the countries we serve. As far as I know, that effort goes back at least a decade. At the management level similarly, we are concerned with diversity and we have tried to use outside recruitment to supplement a kind of natural progression of the more diversified junior staff into management ranks.

Even at the time the Brandt Commission wrote its report, if you looked at, say, the Bank Senior Management Council, which includes all of the Vice Presidents, I would have said there was not an unreasonable representation of - however you want to slice it - non-Americans or non-Part I countries. That also holds true if you go down to the Director level. The question always is: "What is reasonable?" In the Operational group, I guess half of our Vice-Presidents are from Part II countries. Certainly, there are only one or two Americans there. In fact, I guess now there's only one. It's a small group, so you can't have all nationalities represented, but the Bank has been very much aware of that and what Brandt was saying seemed to us simply to endorse what we were doing, although it was not quite said that way.

**BLAIR:** Would you say that the Commissions helped in bringing the Bank closer to other institutions like the IMF? I remember Pearson even had some recommendations for joint country assessments.

**STERN:** Those have almost come to pass. Again, I think in this area what has driven developments is less the recommendation by the Commission, than the international environment. When in today's world, there are so many countries in crisis, it is obviously very important that the Bank and Fund have a joint view, and particularly important that we give compatible and indeed complementary advice.

The issue became most acute when we started our structural adjustment lending because many of the countries thought that this impinged on or came very close to what the Fund does. I think that misunderstanding has been cleared up, but it's certainly very complementary to what the Fund does. As a result of this, today we do have an increasing number of country missions by the Fund in which a Bank staff member participates. There is very close collaboration between the Bank and the Fund. It is now pretty commonplace for the Fund to get the Bank to assess a country's investment program, sectoral priorities and size before it makes either stabilization agreements or extended fund facilities.

So, compared to the days of the Pearson Commission, the collaboration has grown very dramatically. There is still room for some further improvements. These are two institutions with different mandates. Inevitably, they sometimes see things differently. But we have a coordination mechanism in place which tries to make sure that, at least before we reach conclusions, there is adequate consultation. We have started within the last two years, not exactly a staff training program, but a series of joint seminars on issues of common concern to the Bank and the Fund staff. And I think that is also one of the building blocks for more effective collaboration in the long term.

**BLAIR:** Would you say the same thing for the regional banks?

**STERN:** I think our relation with the regional banks has always been very close at a general coordinating level. Once again, I think it has certainly become closer in recent years, as these banks have grown in scope and capacity. We have reached a stage today, for instance, where we rely on the Asian Development Bank for project appraisal in some of the smaller countries in East Asia and in the Pacific and we co-finance with them. There is a clearer division of responsibility for sector analysis in individual countries. At the project level, collaboration always has been good, but it has been intensified. Our staff are under instructions to visit the Asian Bank headquarters and of course, it's easy to do this with the Inter-American Development Bank since they're right here. In all of our country strategy papers, we take into account very much what these other institutions do.

The African Development Bank, obviously, is still at an earlier stage, both in the scope of their operation and in their own analytical capacity. So the relationship there is somewhat different.

**BLAIR:** Would you say that any of the recommendations of either Commission were ahead of their time? Are there ones that are likely to rise again? I take it that the Energy Affiliate isn't quite dead?

**STERN:** Well, I think the Energy Affiliate is pretty dead. Again, the Energy Affiliate, like the World Development Fund of the Brandt Commission, was a suggestion to raise capital. Its death is unfortunate in the sense that it didn't pan out as a tool to raise capital, but the substance of it, I think, is incorporated in what the Bank and increasingly other development institutions do in giving much higher priority to the energy sector.

If you look at the Bank's policies and procedures today, and compare them to the Pearson Commission recommendations, I think you will find a lot of similarities. It's wrong to make a one-to-one link here, but a lot of the things that the Pearson Commission suggested - we talked about the co financing, recurrent cost financing, local cost financing, non-project lending, population - a lot of these things now exist as permanent features of Bank operations.

It's too early to tell about the Brandt Commission. Their recommendations may also be embodied later on in shifts in Bank attitudes, procedures and practices. In my own estimate, it would probably be less so because the Pearson Commission recommendations were, for better or for worse, more narrowly focused on a set of pragmatic objectives. What could be done within the existing institutions by-and-large. How can you make them do things better, or more effectively. The Brandt Report was very much broader and that has a greater risk to it. In the long-term, it may turn out to be more productive, but it is less easy to incorporate those things and it will take, I think, a considerable time before we really know.

**BLAIR:** The Pearson Commission went out of business after it submitted its report, but the Brandt Commission is still trying to influence development policy. Does this make any difference within the Bank? For example, is the Bank's new Special Action Program in any way a response to the new Common Crisis Report that the Brandt Commission has put out?

**STERN:** It doesn't make any difference in the Bank. I think the answer is no. My own view is that commissions ought to go out of business, but that's not part of the historical record, that's looking to the future.

**BLAIR:** Will the Bank feel under any pressure to relax its conditionality requirements, perhaps, because the Brandt Commission has spoken on that?

**STERN:** Conditionality is one of those terms of art. I think here is another area which the Brandt Commission perhaps took at a more rhetorical level than is appropriate for being operationally relevant.

Conditionality, as the Bank practices it, for the purposes of this discussion, is placing conditions on project loans or programs which in our view are necessary to make these projects effective. Or, if we're talking about non-project lending, structural adjustment lending, they are conditions which are a necessary part of the country's adjustment process.

The economic situation in the last two or three years has meant that the pressure on the developing countries is tremendous. Capital flows, both official and private, have stagnated or even declined and terms of trade have turned against developing countries very drastically. Everyone has budgetary problems, investment problems and problems financing their investment programs which have had to be cut back.

It has therefore become very much more urgent to make those kinds of adjustments. Things which were affordable, say, in 1974 or 1975, even after the first oil price increase, or things that were affordable before then in terms of subsidies or price distortions, simply are not affordable today. You can say that's unfortunate, and so it is in some cases, but that doesn't change the fact. A subsidy on kerosene or a subsidy on gasoline is something that most countries cannot afford today; demand has grown and the burden on the budget is tremendous. The same thing is true of subsidies for fertilizer or subsidised prices for farmers. They have to be appropriate. Everyone has learned, I think, that it doesn't help to subsidize the food prices in urban areas because you distort the incentives for the farmers and, in fact, you are breeding dependency rather than independence.

Those kinds of things have to be changed. It's not something that the Bank is pulling out of the air. It is something that I think on the whole most policy makers in the countries we work with recognize themselves. What they are struggling with are questions like: How do you do this politically without blowing the place up? What are the social strains? How do you get political consensus? How do you get it through a parliament? Or, how do you avoid a riot in the streets? Of course, those are very, very difficult issues. How fast you push changes in things like railway or electricity tariffs, or exchange rates, is always a matter of judgment. You have to be reasonably guided on that by the policy makers of the country concerned, but it is also true that they have to be making reasonable progress. At the moment, the world is rather full of countries which are in very, very difficult situations because they haven't made progress in the adjustment process. Reduction of aggregate demand and austerity programs to achieve macro-economic stability are not the kind of conditions that the Bank deals with. Those are issues that get discussed in the Fund context. We try to focus on issues which will make more efficient use of available resources so as to maintain the maximum possible development in the current constrained circumstances. But this requires that countries have to come to grips with the things that we make as our conditions.

These policy issues are tougher today than a few years ago. To relax conditioning and simply make money available does not seem to us to make much sense. There are cases of countries which borrowed in the mid-seventies, didn't adjust and used the external borrowing for consumption. Turkey is such a case. The crisis, when it came, was much more severe than it ought to have been. A lot of that could have been avoided. It led to a

lot of political stresses and strains which still haven't been fully digested. It led to a lot of lost economic growth which will never be recovered. So, the adjustment process is not something that developing countries can afford to ignore.

**BLAIR:** I get the impression that the Brandt Commission was talking also about tone and style. I think they even said that the Bank was in danger of becoming arrogant. Do you take anything from this?

**STERN:** That's always a tough subject. Of course, it's always easy to find an arrogant staff member in any institution. I'm sure we have our share.

All I can say, from my personal experience, is that in discussions with countries where the conditionality issue would be most prominent – that is, in our structural adjustment lending - I have found pretty strong support for what we suggest ought to be done.

I've had a lot of personal discussions with Ministers and Senior Officials who welcomed the support of the Bank for the changes we have suggested. It helps them internally. We are in fact quite flexible as to the time schedules for actions to be taken and I would be really surprised if any of those countries felt that we were proceeding in a non-collaborative, or even a non-collegial way.

There are other countries, clearly, where we have difficult relationships. Tanzania is one of them. There are other cases where countries have taken no action, where the economy is under severe pressure, where distortions are major and where somehow there is the perception that the Bank or IDA should lend anyhow. There, of course, you have a gap in understanding and that can lead certainly to the perception that we are pushing too hard, that we are being unrealistic and, maybe, that we talk from the top down.

But, I think that one has to recognize that the resources we have are very difficult to obtain and we are, on the IDA side, very directly responsible to parliaments who have sometimes, as in the case of the United States, very difficult views about what is a useful aid project and how you go about lending. Even on the Bank side, we have to be sure that resources are well used and are repaid on time. Therefore, we cannot have significant operations in countries which simply refuse to face reality.

So, it is perfectly possible that some of that perception is around. I don't think that problem exists in countries where we have done highly conditional lending at a macro-level. It does exist, I'm sure, in some other countries where we have come pretty much to the end of the road because of the unwillingness of those countries to take any of the necessary policy steps.

**BLAIR:** Does the Bank, even at the staff or management level, speak with one voice or have there been instances where staff members tried to use the Pearson Commission or the Brandt Commission recommendations to promote their side of some difference of opinion within the Bank?

**STERN:** Well, you know, no institution of over 5,000 people will ever speak with one voice. We have lots of people who have their own views. That's great, because we like to hire thinking people. We try, of course, when we get down to making recommendations to countries to be sure we speak with one voice. I don't suppose our success there is one hundred percent either, but, at least, we try very hard to do it.

Internally, of course, people within the Bank have lots of different views about the shaping of our policies and so the answer to your question is certainly yes. I wasn't here when they reviewed the Pearson recommendations or immediately thereafter, but I'm sure they were quoted because, when I came, there were still references made to the Pearson Commission saying this, that and the other.

When we reviewed the Brandt Commission report and prepared for the Development Committee meetings, when the discussions were going on about the Energy Affiliate, certainly people who participated in the shaping of policies had views either similar to or based upon (I'm not sure which way the causality ran) the Brandt Commission report. I don't know whether you're suggesting that's a bad thing. I think it's a good thing. What you want to come to finally is a conclusion which is sensible and implementable and nothing that the Brandt Commission said in the report is something that anybody would want to reject out-of-hand.

**BLAIR:** In retrospect, do you think these exercises were worthwhile from the point of view of the Bank?

**STERN:** My own view is that the Brandt Commission had a very limited usefulness because of some of the factors we talked about earlier. At least to my way of thinking, it cast its net too broadly and it dragged in too many issues which were highly charged and very difficult. Also in my view, they treated them perhaps somewhat too simply, or with too much of a political slant. It's hard to stay on a neutral road with those issues. Therefore, it was seen less as a professional analysis of issues, than as a public advocacy document.

The Pearson Commission was different. However, one of its strengths was also surely a weakness. It didn't, I think, advance the general public debate on aid or North/South relations very much, but in the areas which it did cover, I think it was more effective.

**BLAIR:** One can almost guarantee that, given another ten years or so, there will be another international commission.

**STERN:** Well, I think these things are useful, regardless of how they are finally received, just as Presidential Commissions are useful or Summit Meetings are useful. You can't look at only what happens as the immediate result. I think North/South relations, although that's a somewhat antiquated phrase....Let me say, rather, the role of the developing countries in the world economy and how the international community can facilitate their growth and their development is an issue that doesn't, in fact, get a lot of high level attention in many of the industrialized countries on a regular basis.

Too often, certainly it's cast pretty exclusively in the context of the aid debate, or the appropriation debate in the United States. Equally clearly, there are many, many other aspects of aid relationships and for many of the developing countries the aid flow, the concessional flows, are the least of their problems; in some cases they are totally irrelevant. A high-level commission obviously raises questions of membership, the frequency with which it is held, and the issues on which it should focus. But, having one from time to time, I think, does give a boost to the debate and does raise consciousness and is, therefore, a useful thing, even if it does not have a direct measurable impact on how the Bank does business or, indeed, on what happens to aid flows.

**BLAIR:** Would you recommend in the case of some new commission that the Bank be involved, that it sponsor such a commission?

**STERN:** I think that's perhaps a little hard to say. If you had another commission, I think it ought to be some time away and, certainly, it ought to come after the Brandt Commission finally decides to go out of business. You wouldn't want to have two of them running around the world. Secondly, it depends very much on what the climate is at the time.

Certainly, I think that the Bank can and, probably, should play a role in getting the suggestion tabled and considered. For myself, I would have no difficulty at all in saying that the Bank ought to support it financially if that were necessary. After all, the Bank is a major player in the development arena and I think it not only benefits in a direct sense, but it is important to the Bank and its functions to have a senior-level policy debate on development issues.

So, I think the Bank has a very direct interest. When the time comes, whether there are other players and how it ought to be organized, is impossible to say. But I think it goes pretty much without saying that we would be interested in having that kind of an airing of those issues from time to time.

**BLAIR:** In terms of your general assessment, if I talk to somebody else, say, William Clark or someone else who was involved at the Bank with either or both Commissions, would I get a different view?

**STERN:** Probably. That's why you're going to talk to a lot of other people.

**BLAIR:** Ernie, I realize that you're a busy man and you have lots of other things to do besides just chat about Bank history, so I don't want to impose on your time. Is there anything else that you think needs saying?

**STERN:** I guess not, I think we have covered it.

The debate which used to be called the "North-South debate" is itself in evolution and I think that is one thing that the Brandt Commission contributed to, although perhaps not in



quite the way they intended. The summit meeting in Cancun was helpful, although nobody knows what kind of follow-up there will be or indeed ought to be.

It's important, as I said, to keep the issues before the public and to educate the public about the complexity of the relationships between the industrialized and the developing countries. Nobody has done a very good job at that and it's not very well understood yet. I think exercises like these and others are very important. They need perhaps more follow-up support, not so much with a focus on which of their recommendations are going to be implemented, but a follow-up educational effort to get people to understand the underlying analysis, why Commissions like this exist and what it is they are talking about. In the long term I think that's really very much more fruitful than to look at these Commissions and ask them to make recommendations which policy makers either haven't thought about at all yet or haven't previously rejected. I think that's not really the yardstick for progress, that it is very much more diffuse, but nonetheless important.

**BLAIR:** I will let you go. I thank you and I hope that one of these days somebody will come along to get the rest of your accumulated wisdom.

**STERN:** Thank you very much. I enjoyed talking to you.

**[End of interview]**