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TRANSCRIPT OF INTERVIEW WITH

MARTIN WOLF

Interview By: John Heath

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(Transcribed from a digital sound recording)
The following is a transcript of an interview conducted for a special oral history project on the McNamara years. The project, led by John Heath from 2016-2018, was a partnership between the 1818 Society and the World Bank Group Archives to capture a social history of the experiences of staff during President Robert S. McNamara’s tenure (1968-1981).

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HEATH: This is the World Bank Group Archives in Washington, D.C. Today is March 30, 2018. On behalf of the Special Oral History Project on the McNamara years, I’m John Heath and this is interview number 52 in the series.

I have with me today, Martin Wolf, a former Senior Economist at the World Bank who was a staff member from 1971 to 1981. Thanks, once again, Mr. Wolf, for making yourself available.

Let me take you back to the beginning. Before you entered the Bank, what impressions did you have of it and why did you ultimately decide to apply to the Young Professional’s Program?

WOLF: Well I didn’t know that much about the World Bank, but I was studying economics at Nuffield College in Oxford, and I was exposed there to a number of development economists who subsequently became very famous, notably including Ian Little who was my college supervisor at the beginning.

So, I became very interested in development issues broadly speaking while I was there. They were working on a very famous project called, Industry and Development in Developing Countries, which they wrote for the OECD [Organisation for Economic Co-operation and Development]. It was really a seminal project on trade and development, and they were publishing that while I was there.

While I was at Nuffield in, I think, my second year during the BPhil, I met a man called David Henderson who was then head of one of the divisions in the economics department. I don’t remember which, but he later became head of the economics department and he fell out very badly with McNamara later and left.

But anyway, he persuaded me, he was a very well-known British economist. He had been in the
government, and he was a fellow at Oxford College. He persuaded me that it would make sense to apply so that’s how it came about.

**HEATH:** Before you applied to the Bank, how would you describe your orientation as a budding development economist? What were the ideological, if you like, bent, and also maybe your political position?

**WOLF:** I don’t think I had an ideological bent as a development economist, at least it’s not clear to me what it would have been. I was a social democrat. I had been a member of the labor party, ran an active one though I sort of fell out of love with it about then.

It was a time when the far left seemed to be growing in strength and I had never been a member of the far left. I had always been what English people call a Gaitskellite after Hugh Gaitskell who was a leader in the early sixties and died young. So, I was a social democrat.

I studied economics because I thought it was a discipline which was conducive to understanding the world and making it a better place. It seemed a practical discipline so that’s why I studied economics. I thought development was probably the biggest challenge in the world for an economist. It was just so much poverty. And finally, I had been persuaded by these economists at Nuffield who basically were the first or among the first to argue for a break from the old import substitution approach to industrialization. Their research led them to support more than open trade, what we would not call globalization approach to development. I was very persuaded of the evidence they produced.

Notably but by then already evidence success of South Korea which was very influential on many development economists. I would say I was fairly middle of the road but broadly speaking, pro market, pro international economic integration, and I was part of the wave of economists who were turning away from the old inward-looking import substitution approach.

**HEATH:** So, would you say that, I understand you worked with Ian Little and also Max Cordon.
**WOLF:** At Nuffield, yes, that’s right.

**HEATH:** Would you say that their views in the books they wrote at that time were in line with the World Bank’s philosophy or were they actually challenging the World Bank’s philosophy?

**WOLF:** That’s an interesting question. I would say that this was a period of very substantial turmoil, if that’s the answer of their word, or rethinking of the right approach to development. But I found when I was at the World Bank subsequently, that the majority of the economists, anyway that I dealt with, were quite sympathetic to this new view.

During my career at the World Bank, probably spent more time on trade related issues than anything else. That was basically what I did, and I basically argued during this period for the sort of approach that I had learned and that I believed in and I think contributed to. I never felt much, if any, pushback from World Bank economists. They seemed, broadly speaking, to be in sympathy with its view. That wasn’t, I’m sure, true of everybody but I don’t remember ever experiencing any strong resistance. The World Bank economists tended to see themselves as having a rather different perspective from, for example, UNCTAD [United Nations Conference on Trade and Development] or UNDP [United Nations Development Programme] which had, particularly UNCTAD, of course, which had been founded by [Raúl] Prebisch, a very different approach.

**HEATH:** Right. So, if I can take you to your interview for the Young Professional Program, what do you remember about that?

**WOLF:** Not much, I have to say. My memory is that there were two, my memory of those years which are now morphed. It was nearly a half a century ago. I have a memory of a preliminary interview in England and a final interview in Paris. I don’t remember who conducted the interviews. They could have been people I never met again; I really don’t know. Obviously, there were a great many questions, but I can’t remember what the questions were. I was always rather articulate. You seem to remember events which are slightly traumatic, but interviews weren’t very traumatic for me. The detail of them I can’t really remember.
HEATH: Very good. You entered in ‘71, do you remember other people who entered that time in the Young Professional Program?

WOLF: Yes, I made a number of very good friends with people who entered at a similar time and some of them are still my friends. I entered Stanley Please’s division, which I think was called Development Finance. One of the other people who joined me at exactly the same time, if I remember or very close, was Shankar Acharya, who went on later to be the Chief Economic Advisor of the government of India and remains to this day, a very dear and close friend.

Another who joined at that time was D.C. Rao who, I think, went on later to be acting vice president of the research department, I’m not sure about that, and retired some years ago and lives in India and is also a dear friend.

My deputy division chief was Montek Ahluwalia Singh who had been at Oxford and had joined the Bank a couple of years earlier perhaps, and, of course, later went on to be a cabinet minister in India and a very close advisor of Manmohan Singh. So, I remembered these people extremely well.

Quite a number of other people who must have joined at about the same time, Geoffrey Shepherd, who later went to Sussex University and then came back again, worked on industry at the World Bank. I’m sure there will be other names that come to me but those were the people who actually worked in my division, so they became the closest friends.

HEATH: You haven’t mentioned any women professionals. Were there any that you recall?

WOLF: I actually think, there was one senior woman in the World Bank who became a very good friend of mine and for whom I worked at a later stage and was my boss. She was called, Helen Hughes, who must be well known to you. She is an Australian woman who must be a good 20 years older than me. She’s now dead, I know. She was remarkable because she was so rare.

I joined in the Young Professional Program in September of 1971, if I remember correctly.
my memory, and I’m in no way saying that my memory is reliable, I’m sure it’s easy to check, but I don’t remember that there were any women in that group of Young Professionals at all. I remember it being entirely male and that women started coming into the Young Professional Program quite shortly thereafter in the mid-seventies in more significant numbers. I got to know quite a few of them.

If memory serves me, that big change, the arrival of women as professionals in the World Bank, with the exception of Helen who was a remarkable forerunner, sort of occurred in the seventies but after I actually joined. It was, I think, at the professional level with a few exceptions, an overwhelmingly male environment.

**HEATH:** Right. Before we get into the details of your different positions at the Bank, let’s get an obvious question out of the way. That is, did you at any point in your career in the Bank or subsequently have a one-to-one meeting with Robert McNamara himself?

**WOLF:** I had a fair amount of contact with McNamara, but I don’t think any of it was one-to-one. I can’t be sure of that, because again, my memory is not perfect. At a later stage in my career in the Bank, for about three years, I was the senior division economist on India.

India was, of course, the biggest borrower and most important client of the World Bank in the seventies because China hadn’t joined. Mr. McNamara took a great deal of personal interest in it, so he interacted with me, he phoned me, he gave me tasks to do, some of which I still remember. It is possible that in the course of this, I had one-on-one meetings, but I don’t remember any.

**HEATH:** What were some of the tasks that he gave you when you were working on India?

**WOLF:** The one I remember best, because it is one that came right at the beginning because I met him with the division chief and so forth, [Jochen] Kraske and later [Bilsel] Alisbah. I think was his name. The task I remember him giving me very early was to fill out a sort of spreadsheet in paper to work out whether the food prospects of India were manageable. The idea was that I
would work out on the basis of average yields and the development of average yields of different crops in the two different seasons they have in India as sort of numerical tableau of current and perspective food production. It was very input-output.

I came to see that as sort of the classic McNamara approach to problems of being sort of input-output type approach. I was struck by, because he asked me to do this and I certainly had remarkably little knowledge of this. Though I tried to get the best information I could, it was, I think, a pretty doubtful exercise. I remember doing it and it made me realize how keen he was on precise numerical projection.

**HEATH:** Was this inspired by the energy food crisis of the mid-seventies? Was there a concern about that?

**WOLF:** I don’t know what triggered it precisely, but you will remember the World Bank had a close involvement in India in the middle of the sixties. Of course, it had a close involvement with India from the very beginning when it was founded, but there had been a real famine in the mid-sixties, I think 1965, ’66 is my memory.

A very large mission was sent by the World Bank to India which had made quite a number of recommendations, including recommendations on liberalization of various kinds, which had been very controversial in India. But this had been quite the scarring experience, if I understood it. It happened before my time. Stanley Please himself would have been proud of this mission. The World Bank was very concerned that there should be no repeat of the famine experience.

Second, the Green Revolution had just come into existence in India in more or less the turn of the decade and the World Bank was very actively involved in supporting the implementation of the Green Revolution through finance. It was one that, of course, turned out to be one of the greater successes in development history.

Incomparably, when I joined the World Bank, there was still a widespread idea, you will remember, it was associated with Paul Ehrlich, that the democratic prospect and food prospects

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of south Asia were such that mass starvation was completely inevitable. Ehrlich was particularly
gloomy about Bangladesh but also pretty gloomy about India. So, people were hopeful that the
Green Revolution would work, but there was obviously tremendous anxiety if it turns out not to.
So, there was a very good reason to follow food production in what remained an overwhelmingly
agrarian nation.

Finally, as you rightly point out, I joined, if I remember correctly, the India division in the
autumn of, I think the autumn of 1974, that was certainly my memory. That was the time of the
oil crisis and my years at the World Bank were dominated by producing country program papers
which was my main activity as senior economist since we were responsible for the program
coordination in Washington, while the people in Delhi basically did most of the work on the
economic report. We were very focused on how we could manage the consequences of the
energy crisis. Of course, because it was such a huge shock for India and India’s balance of
payments was so weak, there was a real concern that if something went wrong with the harvest,
and it had to import a lot of food too, there could be a tremendous humanitarian crisis.

So, I imagine, though I don’t think I ever discussed this, that these three things together naturally
made the exercise he asked me to do, one that made sense to Mr. McNamara indeed. Looking
back on it now, as I said nearly a half century later, I remember very, very well how big and
righty so, the concern was about simply the ability of a country like India to feed itself.

I regard development as one of the great successes of my lifetime and one of the great successes,
ot of course an unalloyed success, later on we’ll talk about my time in Africa, but the food issue
was central and, of course, nowadays we don’t worry about it anymore. It is very astonishing to
me. I often think about if the population of India has increased perhaps three times since I was
working on it, I don’t know this is a guess, something like three times, and yet nobody worries
about feeding India at all. I think that’s an absolute miracle. That was not how we saw it at all in
the mid-seventies and McNamara was quite right to focus on it.

HEATH: You’ve set the scene very nicely, thank you. Let me take you back to McNamara and
ask you what your impression of him was as a person, as a leader and maybe how that has shifted
over the years.

**WOLF:** I actually wrote about this in the presses of my book on globalization which was quite successful and published in the early 2000s. I became very disenchanted with Robert McNamara. It was one of the reasons, though not the dominant reasons, of why I left the World Bank. I’ve explained my view of him in that. I got to know him well enough that he knew who I was throughout my subsequent life, in fact. But my answer is, since you’ve asked, McNamara was one of the two most remarkable personalities I met in my life. Given that my life has been that of a very, very senior journalist, I’ve met a lot of people. I’ll explain that in a minute.

He had a truly remarkable intellect in many respects. He was, I think, a decent and moral man, obviously profoundly marked by the experience in the Vietnam War which, of course, preceded his coming to the World Bank, and he was fatally flawed in human judgement, fatally flawed in human judgement.

So, I regard him as both an astonishingly impressive person and a tragic figure, because the things that went wrong, were the things that went wrong because of his own personality and mental makeup. His command of information, his command of the details of what was going on and his dominant personality was so extraordinary that he was just in total control of the Bank. Everybody was, I think, to a greater or lesser extent, frightened of him. He was, in all the respects I’ve mentioned, completely extraordinary. I understood very well why he’d made this astonishingly brilliant career as a young man. If you’re going to ask me about his flaws, I’m happy to expand upon them, but I don’t know where you want to go from here.

**HEATH:** Indeed, I’d like you to tell us about that please.

**WOLF:** So, I described his personality driving, clear headed, absolutely determined to solve things, domineering, very quantitative, very precise and very frightening. He never frightened me. We always got along. I was very junior perfectly well and I got along later even incredibly well with Ernie Stern who was, of course, he became his right-hand man and later went on to run the Bank who was also a very close friend of mine.
This was his personality. He constantly had new ideas of what to do, good ones and less good ones and that was a good thing too. I think the overriding personal flaw, and I’ll come to the intellectual one which I think is much more important, is that he found it, I think, very, very difficult to cope with people who disagreed with him. That made, because he was so dominating and dominate, the Bank a bit of a monoculture intellectually and that was a bad thing, because when he got wrong things wrong, he got them really quite wrong. So that’s the personality.

Now the intellectual side. The way I think about this is that McNamara was a natural Stalinist planner. It was his instinct. It is where he came from. He saw a problem, he tried to turn it into a problem that could be treated numerically, quantitively and he then devoted resources to delivering the quantities of whatever it was that he decided represented that solution to this problem.

We all know the famous example of body count in Vietnam. That was probably the most notorious one. But in the Bank, it seemed to me that his main conclusion from his thinking about development is that aid money, not aid, resources given to these countries, filling the resource gaps they had and Hollis Chenery, his chief economist who he selected had a very similar intellectual approach, would be the vehicle through which certain precise numerical goals for the development in terms of growth of income would be achieved.

So, he decided when he came to the World Bank enormously to expand its lending program and enormously to expand its activities, in order to deliver loan targets that became essentially sacrosanct. Now it’s of course true that throughout there were also projects, but those were increasingly seen as vehicles through which these loan targets could be achieved. Now the consequences of this were, I believe, very grave because it had two very clear consequences at the divisional level. The first was that it subverted integrity on projects. If everybody knew you had to finish a project in order to achieve a loan target, it would be finished whatever the quality of the project, or at least the quality of the project became a secondary or tertiary issue. The people on the other side, the developing country, also knew this. So, they knew the Bank was trying to impose on the project didn’t really mean anything because in the end they had to make the project.
The second problem with this approach is that the matter of facts, the main problems in many developing countries were not about the lack of foreign resources to support development. It was a lack of institutions and policies that made it possible to implement development programs at all. But the Bank’s determination to mobilize resources actually, and I think this is a continuing problem, made it easier for countries to ignore the challenges they faced and indeed to retain the bad institutions and policies. So, let me give you a very concrete example which meant a great deal to me and had a great impact on my subsequent view of the Bank at large.

In the early seventies, as you said, up to ‘74, the India experience had tremendous balance of payments crisis because of the energy shock. Oil, which was a large import, became very, very expensive. This was about the payments’ crisis rather like the one that for different reasons hit India in 1991, long after I had left the Bank. My view was, and I was writing about this and I later wrote a book for the World Bank on this subject, is the reason India was so damaged by this rise in the price of oil was India had such a tiny export base. Its export industry was so tiny. Its exports were about 4 percent of GDP, if I remember correctly. Unbelievably tiny. Why was this? Because it had the most extreme import substation program probably of any country outside the communist system. The import substation program is, of course, a tax on exports. So, it had shrunken its exports which were extraordinarily undynamic and extraordinarily small.

Now I had worked before at the World Bank on Korea and I could see the opposite experience in Korea which was so remarkable. I thought, and a number of the other economists thought, that the energy crisis was an opportunity really to persuade if not control India to the sort of reforms it later did introduce in 1991. But the World Bank’s approach was rather to drum up as much money as could possibly be drummed up from the World Bank itself and, of course, from the development, the other donors, all the other bilateral donors, the U.S. and all the rest of them, to fill India’s foreign exchange gap and to avert the crisis. And this was successful. Given the immediate nature of the crisis, I understood and understand why they did it.

But a great opportunity to reform India 17 years before it was reformed and with that, a great opportunity to accelerate India’s growth about what was then called by one of my Indian friends, the Hindu rate of economic growth of 3 percent. This great opportunity was lost, and it was lost
because there was far too little focus in the development in the aid program, in the lending program of the World Bank. There was far too little focus on the underlying institutional and policy underpinnings of these countries. And that, I think, came from the top.

Later on, I was less involved in this, the Bank got very actively engaged in and supportive of the so-called oil recycling program of the late seventies which led to the debt crisis. The huge and devastating debt crisis of the eighties. The Bank did not, in my view, adequately warn of the dangers of this, it didn’t understand them. It was just too happy with the development programs, the idea of programming development through lending targets. I think that was a tremendous analytical error.

I think later on, the ideas on rural development suffered from similar defects. I thought that because McNamara approached problems essentially as a programmer dealing in numerical inputs and outputs. Rather than in terms of the incentives people faced, the polices governments had, the institutions of governments, the probity of governments, which I learned quite a bit about. I thought we were sort of missing the point, and, in fact, in many cases, doing damage because we were postponing policy changes that needed to be made.

You asked me whether I have changed my mind since I left. The answer is not much. Analytically I’m sure what I thought then was correct and I still think what I thought then was correct. In fact, the experience since then has sort of reinforced it in many ways. What I do now recognize, I suppose, is that politically it would have been very difficult for the Bank to act in the way I would have like it to have acted, particularly vis à vis a powerful and important borrowing country like India. But I thought the mistakes we were making in Africa were even bigger and I worked on East Africa before I worked on India. I was very happy to start working there because I was absolutely convinced everything we were doing in Africa in the seventies was a disaster and I feel that history has completely vindicated me. It was a truly calamitous period.

So, I regard McNamara as something very close to a tragic genius. A remarkable intellect, a remarkable personality, a man of passion and commitment and, in many ways, integrity but who just got things fundamentally wrong.

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Verbatim
HEATH: Well thank you for that tour de force, if I may say, it is a really excellent exposition.

WOLF: I don’t know whether my view is right, but it is a view I developed after very substantial thought at the time and thereafter, I have never changed it. I feel it with great regret because I have to say, and I hope I’ve made it clear, that as a person then and later I came to respect him.

One little thing just to support my view. Later on, I looked at the very famous video, the Fog of War. It seemed to me he recognized in that case that he made a very similar mistake in the Vietnam War. Now obviously I wasn’t involved in that but basically the point he’s making is, I never understood the motivations of the Vietnamese. He says this. Well I said when I saw that, yes, you never understood the motivations of anybody. That was his tragedy.

HEATH: Right. You said when you were talking about his personality that one of his problems was that he couldn’t cope with people who disagreed with him.

WOLF: He tended to ride right over them in my experience.

HEATH: Yes. Were there people that you know who were forced out of the Bank because of that inability of him to put up with dissenting him?

WOLF: That’s a very good question. David Henderson was but I’ve never known how directly related that was with his relationship with McNamara. My sense of it was rather that he promoted people who he felt he could rely on to be loyal. They were usually very able and the people who he thought were not on his side sort of disappeared into rather insignificant activities. But I never looked closely enough, and I wasn’t senior enough to know very senior people enough to have a real sense of how far people’s careers got broken by not fitting in with the McNamara ethos.

It should be said, of course, as I know very, very well, every president of the World Bank pretty well has gotten rid of people they didn’t like much. Jim Wolfensohn was legendary for this. So, I’m not blaming somebody for appointing people who they feel share their vision. It’s understandable, but it is very important that among those people who share their vision, there are
people who get up and say look, Bob, this is completely and absolutely wrong. I don’t know whether that never happened, I suspect it must have happened, people said this from time to time but I wasn’t at the very senior level. But my sense of it, and I must emphasize I was at a very junior level, my sense of it was that this was an institution in which the will of one man was overwhelmingly decisive.

**HEATH:** Do you have a sense of why Henderson left? Did he have a different view of the world from McNamara and what was the difference?

**WOLF:** I don’t know the details. By the way, I think David is still alive, so you can interview him. I think he’s completely coherent too even though he must be about 90. I don’t remember the details of what happened. I think it had to do with a reorganization of the World Bank in the early seventies which David was adversely affected. That led him to be sort of demoted somewhat but the details, we never really discussed. I know that he fell out with him.

He did a huge reshuffle of the whole structure in the early seventies, a fairly big one, in which he deconstructed the Projects Department and distributed it around the regions, if I remember correctly and changed the Economics Department. This obviously made a lot of people unhappy.

I should remind you, we talked earlier about the World Bank’s attitude on industry and trade. There was a very senior World Bank economist whose name was King, if I remember. I can’t remember his first name who actually participated in the [Ian] Little and [Tibor] Scitovsky [Maurice] Scott series on industry and trade in developing countries. I think he wrote the book on Mexico, but I would have to check that on Google to be sure. I won’t swear on that.

**HEATH:** Maybe it was Timothy King, perhaps?

**WOLF:** It could well be Timothy King, yes. He died very recently; I remember. I can check on that, but there were World Bank economists very interested in this new perspective on trade and development.
HEATH: Right. Let’s take you back now when you were still a Young Professional in 1971, 1972. I guess you had the standard two rotations. What was your first rotation?

WOLF: My first was in the Development Finance Division. I think it was in what was then called the Economic Programs Department but that might be a mistake. That was under, sorry the Domestic Finance Division under Stanley Please and that was in the Economics Program Department, I think. There was, I think, an Englishman called [John] Hayes who was the department head, director. I worked for Stanley Please for six months and in that time basically, I worked mostly on Mauritius. The second six months, I worked in the Development Finance Department whose boss was, if I remember correctly, Bill [William] Diamond. I worked then in a division working on East Asia and I worked mostly on Korea. I did a mission to the Korean Development Finance Company in 1972 under the leadership of Joe Wood who later went on to be a vice president of the World Bank.

HEATH: All right you mentioned Stanley Please a couple of times. Let me ask you what you remember about Stanley and his economic thinking.

WOLF: Well Stanley was a very big influence on me and became a very, very dear friend throughout his life. Stanley had, of course, I’ve read his autobiography so that sort of affects my memory to some degree. He was an extraordinarily nice and decent man, I mean truly wonderful, self-made, came from a very humble background, fought in the war. I thought of him as the very best sort of Englishmen. He had surrounded himself with exceptionally bright people in his division, I felt then and still feel this.

He was most famous for the “Please Effect” which essentially undermined the idea that you could raise national savings by raising public savings which was a very popular idea in the sixties. His idea was essentially that if governments have more money, they would spend it. Therefore, the idea was that governments were not plutonic guardians who would manage fiscal policy in the most disinterested way. He thought that they were subject to pressures and incentives which would ultimately always encourage them to spend the money they had and possibly even a bit more. This influenced very much, his approach to public finance questions
which was the dominate focus of this division’s work. It was about domestic finance; it was about the mobilization of savings for development. It was a very strong sense which fit in more broadly in the ideas of the time. Ideas that development depends, among other things, on the rate of investment and therefore it depends on the rate of savings plus foreign savings which were basically aid. Therefore, it was very important to mobilize domestic savings, but Stanley was quite moderately pessimistic about the extent to which improvements in public finances would deliver this.

HEATH: He wrote a book called, The Hobbled Giant. He went on to champion structural adjustment. What do you think about that?

WOLF: That happened after I left the Bank. So, the controversies associated with that came later. However, I was very sympathetic to what they were trying to do.

In a way, one of the tragedies of the World Bank, I think of any institution like this, is it lurches from one mistake to its opposite mistake.

In my time, as I’ve indicated, I think the great mistake of the World Bank was to focus on the amount of money available through lending and to ignore policy and incentives. The idea of structural adjustment, in my view, was essentially in its essence to say, well if a country is going to succeed, it has to create a policy environment which will encourage development. That means that it has to have sound public finances, it must have the right sort of trade policy, the right industrialization policy which motivates development effectively.

Many countries in the seventies and early eighties were, without a doubt, fantastically distorted on many, many dimensions. The idea was to reverse this. I’ve always understood very well why that was desirable, and I also understand very well why it was very painful, and why many vested interests fought this to the death, and obviously lots of mistakes were made in the process.

The broad aim that Stanley had in his support for structural adjustment, which of course he did with Ernie Stern has always seemed to me perfectly understandable in the circumstances of what
were extraordinarily distorted and mostly extraordinary unsuccessful developing countries. The seventies had been a disaster for development pretty broadly with very few exceptions, and the idea that there had to be a new beginning to some greater success which would show more awareness particularly was happening in East Asia which was the most encouraging region in the world. That idea seemed to me then, and seems to me now, perfectly sensible.

**HEATH:** You could argue that structural adjustment was a necessary response to the problem of indebtedness. As you suggested earlier, the Bank itself was complicit in that indebtedness of so many of its clients. Would you like to expand on that a bit?

**WOLF:** Well, that’s obviously, when I said they were in a terrible mess, there was a combination of very poor incentives in these countries. Consistent taxation of trade because of very high protection, and extraordinarily corrupt trade policy regimes too, but that is a secondary issue.

I wrote about this in the eighties because I worked subsequently on trade policy and development. When these huge negative terms of trade shocks hit the developing countries with the net oil importers mainly which was obviously most of them. In the context of very, very weak and small export sectors, they immediately ended up with these enormous structural current account deficits, pretty well universally. The World Bank said, you better borrow to keep the development program. The World Bank had already encouraged them to borrow but it got much bigger as I talked about the recycling idea.

Again, you could perfectly well understand it. Given exports were so small and the terms of trade shock was so large, the needs for foreign exchange increased it dramatically. Borrowing seemed to be available, so people encouraged them to borrow. That clearly was a mistake, but you could understand why they made this decision. When it turned out that the borrowing had been excessive, and it was the environment in which borrowing occurred had been massively worsened by the bulk of error policies of the fed which had imposed extraordinarily high interest rates on all commercial borrowing. The World Bank couldn’t expand its lending either, and it was clear that another policy had to be tried. The idea obviously of structural adjustment was to
change the incentive system of the countries such that they wouldn’t need to rely so much on external borrowing to sustain a reasonable level of imports.

We all knew that developing countries needed pretty high levels of imports because they needed imports to supply all the basic intermediaries, oil, energy, things like that, if they didn’t produce it and they were to import all the capital goods they needed because they didn’t make them.

So, the needs on the import side were very great. The borrowing proved a disaster, so you had to change the incentives of the country to make them more competitive and to expand their exports. That was a large part, in my perception, of structural adjustment, and all this at every stage sort of makes sense. You can see that it sort of made sense. You could see very well why Stanley was supporting in that context, the structural adjustment programs.

To this day, I can’t really see what the alternative would have been. The money wasn’t available for any alternative development program. The expansion in developed lending by the World Bank was no longer possible, that had occurred. The developed debt crisis really cut off all lending from commercial sources to nearly all developing countries for a decade. So, if they were going to expand their imports, they had to expand their exports. That meant they had to have real depreciations and import liberalization to some degree. It required a major policy upheaval, and to a very large extent, this was dictated by the external environment. It was not something anyone really had much choice about.

HEATH: Right, thank you. Let me take you back to Korea. You said in your second rotation as a young professional, you had a mission to Korea. That would have been 1972, I guess.

WOLF: Yes, it was the summer of 1972.

HEATH: What do you remember about that mission?

WOLF: I remember it fairly well. It was an evaluation of lending we had done to the KDFC, the Korea Development Finance Company, which I believe still exists so I’m not sure about that, which was a relatively new development finance company. I think it was about ten years old or
so. We had done a large amount of lending. Joe Wood was the leader. I think somebody called, Dimitri [Demetrious] Papageorgiou was another member. I was a member and I think there was a Frenchman who was the final one, but I can’t remember. We were there for about five weeks. We evaluated the lending policies. We had a lot of interviews with the management and I went and did an evaluation of a few of the lending projects they had done in various industrial sectors. One I remember was a radiator factory.

For me, the details of the mission were not that important. We came to the conclusion that, of course, it was a successful development finance company because it was operating in a fantastically dynamic country with enormously rapid industrialization going on. That was obvious. In this context, they could hardly fail.

It was the first and probably the last time at my time at the World Bank that I really was, in what I think of as a “developing country”, was developing at a sensational rate. You could see that. It was halfway, was still a very poor and predominantly rural country but it was changing with amazing speed.

The people I met there in Korea were very impressive for their determination and hard work. I went there at the time when, unfortunately, Park Chung-hee imposed a state of emergency and turned the country into a dictatorship. I thought that was a great tragedy and quite unnecessary. I still think it quite unnecessary and created a lot of bad problems later on.

But it was a seminal experience for me, I was a very young man. Being in that country, talking to people and seeing what was happening, made me realize that there was context in which development could work. I think what I didn’t realize then and I would realize more now is that a lot of what they could do was quite country specific and much more difficult to replicate elsewhere than I was inclined to believe at that time.

**HEATH:** An important aspect of your intellectual development is this issue of the state versus the market. That plays nicely in the Korean context. There are some people, I’m thinking of Robert Wade, for example, who’ve written about the brilliant development of Korea wouldn’t
have been possible without an activist state. What was your thinking at the time when you were in Korea and how has it changed since?

**WOLF:** That’s a very interesting question. It is probable and trying to remember exactly what I thought then is difficult. I probably focused on it in a different way. It seemed to me then and it seems to me now that the really big decisions that Korea had made was to rely on external trade, to become an export powerhouse and to build up a powerful export industry. To allow the export sector at least, and this is what Bela Balassa used to call it, to operate essentially at world prices. That involved a bit of complexity in the import regime but essentially allowed the export sector to work at lower prices.

It was clear then that the government obviously played some role in promoting new industries that will be export oriented. I remember one of the things I did when I went to Korea was to go to the shipyards of Hyundai before they ever built a ship, when they were just holes in the ground. This was obviously an enormously big project which wouldn’t have happened without a good amount of government funding. So, the role of government was clear but every developing country I went to had government fingers all over it. Everything was done with the government. Korea was an early stage, so I didn’t have anything to compare with it.

It isn’t the case that the Korean government interfered in the economy more than India. In fact, it’s perfectly clear to me then and now the Indian government interfered in the economy much more than the Korean government did. The difference was, to my mind, and remains to this day, how it interfered and to do what. So just saying that the government played a large role, doesn’t seem to me very interesting. I don’t know of any developing countries where that isn’t true. Actually, even in Hong Kong it’s not true.

What seemed to me interesting about Korea, is how it was interfering and to do what. And how it was interfering was to develop an export oriented and export competitive industrial sector. By providing it with incentives which essentially were roughly neutral as between producing from a domestic market and the external market and providing them with a world class input at the world prices that they needed to do so. That seemed to me and still seems to me, the decisive
policy choice Korea made. I wasn’t that excited about the question of what precisely the relationship between governments and the market was because it seemed to me, secondary to this really huge incentive choice, and I have been basically convinced that that was correct.

The difference when I changed my view on this is that, I don’t know whether I would agree with Robert, but where I would say I have a slightly different perspective now, is that there were far fewer countries able to implement that sort of industrialization strategy because of human resources predominately. Really there were not that many countries that could do that. That meant that options were much more limited since industrialization seems to me the fastest route to development, and that still seems to me now.

Secondly, they clearly did need a support of an effective government bureaucracy in all sorts of ways, any state does. I tended to assume that it was easier to generate such a bureaucracy than I would now think it is. So, what I’m saying is that in those two, it’s not that the difference is that Korea had an active government and the others didn’t.

As I said, every developing country had an active government. What seems to me to be special is the capacities and resources and values, to put it bluntly, of Korea as a country. Using those assets in the context of a right development strategy, produced stupendous results. Using those resources in the context of a wrong development strategy gives you North Korea. I don’t think anyone would regard that as a success.

HEATH: So, you subsequently famously became something of a free marketeer after you left the Bank. I presume at that time, you would not have agreed that governments should pick winners, but you could argue that maybe Korea did pick winners and they did so intelligently. Would you agree with that?

WOLF: This is a very interesting question. Yes, you’re right. I still am very suspicious of governments picking winners. When I was in Korea, so this was ‘72, the picking winners’ phase was far less obvious. This was a very early stage in Korea’s development and the dominant industries driving Korea’s export growth then were textiles and clothing. The great electronic
success and engineering successes, car successes came much, much later. Those textiles and clothing firms were pretty well a spontaneous development. Obviously, I’m sure there was some government guidance, but this is not a high-tech thing. There was a lot of foreign involvement in the specifications of exactly what they were producing and so forth.

So, it was more or less, I think, still the spontaneous consequence of the devaluation and liberalization of the early sixties. That was the dominant thing I was seeing. That was generating increased markets and that was generating, of course, (inaudible) and roads in industrialization. The dominant substitution industries at that stage were thought of as the chemical and steel industry, neither of which were believed to be -- and that stage certainly worked, and steel became a slightly different story in the eighties. Neither of these were a really important part of the dynamic development of Korea.

So, at this stage, I didn’t think then and don’t think now that the picking winners’ side of this was very significant. Subsequently, it’s clear that they developed a strategy long after I had left for supporting new industries with the chaebol and a complex story, very, very complicated story, in which they gave them protection at home and the return for that was that they had to develop exports. They were required to develop exports.

The only thing that I would say, would have said then and would say now, but I would say it more now than then, is it was pretty clear that the Koreans were fairly consciously, both at a firm level and a development finance company level and the government, sort of modeling themselves on Japan. They looked at what Japan had done 10 or 15 years earlier and said well, if they can do that, we can do it. I think that’s a very important part of the story of Korea. That gave them, as it were, a template, a leader to follow which most other countries didn’t have, and I think that permeated the whole of society.

I think one of the mistakes in looking at Korea might be to think of it as market versus government, as it were. Probably a better way of thinking and this is certainly a change of my view, is to think of this as a system in which the private sector and the government had merged to a very substantial degree. This is an exaggeration, but they were more or less in some
profound way the same thing. They were all working together towards the national goal of increasing exports and industrialization. That’s the only way to achieve national survival.

One of the things I didn’t focus enough on and seems to me vastly more important than I would have though 20 years ago, is the role, to put it bluntly, of nationalism. The role of a sense of national identity in driving, at least some of these national development programs. The most obvious example of this, of course, in the last 30 years for all its incredible complexity is China.

HEATH: Yeah. Again, that’s very helpful, thank you. Let’s now turn to your experience --

WOLF: I should tell you that I can’t go on with this forever. So, when do want --

HEATH: (Laughter) Can we do another half hour, is that okay?

WOLF: Yeah, I didn’t realize it would be quite so in detail. I’m rather surprised by this. Not much after 5.

HEATH: That’s all right, okay. So, let’s go --

WOLF: We can always continue later if you want to.

HEATH: Thank you. Let’s get your experience in East and Southern Africa, ‘73, ‘74.

WOLF: Yes. Actually, I think it was late ‘72, ‘74.

HEATH: Okay so you were an Economist in the Office of the Regional Vice President, East and Southern Africa. What impressions did you have of that period?

WOLF: Bernie Bell and Stanley [Please], who had moved there, invited me to join him. I had intended to stay in the Development Finance Department, but as soon as I more or less agreed to do that, Stanley invited me to do this because he obviously liked what I did when we worked together. I should say, by the way, en passant, that my predecessor was Shankar Acharya, so it
was quite incestuous.

The main thing I did, I worked for Stanley on lots of projects. IDA allocations, things like that, and the main thing was he sent me on a mission to Kenya and he sent me on a mission to Zambia. They absorbed, each of them, pretty close to a year each in various ways. It was a sort of basic economic report on Kenya and a report on agricultural pricing and agricultural policy in Zambia. These were immensely significant experiences in my life, unfortunately almost entirely negative.

I emerged from that experience deeply, deeply depressed about what we were doing in Africa, what was happening in these countries which had been newly independent, and the obvious impossibility of making progress on the basis of what was happening on the ground. I was very relieved to stop working on Africa.

The problem, as it seemed to me, was the states were clearly artificial with few exceptions. The people I was dealing with had no real loyalty to these states. There was a tremendous amount of corruption going on. That was much more obvious in Kenya than in Zambia, I should stress, and looting, essentially of the state. The policies that were being pursued were favoring a relatively small urban minority.

In the case of Zambia, predominately the copper workers and the urban people at the expense of the pleasantry at large, through policies that provided high protection for import substitution industry, deprotected agriculture which was not really protected at all. So, turning the terms of trade dramatically against the rural sector with obvious consequences. Tremendous demographic stresses. Huge surplus populations emerging in the rural areas which were beginning to flood into the towns where they had no work. There was a real understandable concern already identified by the UNDP and famous work and the work of Harris and Todaro with the emergence of mass unemployment, and we had no idea what to do about any of this.

I did work, which I thought was quite sensible, on getting rid of the extreme antirural bias in the trade policies, antifarm bias, antiagricultural bias, trying to make the policy regime more

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transparent and less quota driven, less dependent on a quality of administration that really wasn’t present in Zambia where essentially there was no administrative structure. When we went into Zambia, they became independent. This is not their fault, they had virtually no graduates. It was a very seminal experience for me but very, very depressing. I decided then and didn’t change my mind that the World Bank had no idea whatsoever what to do in these countries. Therefore, the sooner I got out of it the better.

HEATH: Right. Can we go for another 15 minutes, is that okay?

WOLF: Yes, I said I’d go to 5.

HEATH: Okay thank you. So, let’s move on now to your experience in South Asia, India. I think you worked just on India is that right?

WOLF: Yes, I only worked on India. That was enough, it’s big enough.

HEATH: Yes, of course. So that was from ‘74 to ‘78 you were a senior economist?

WOLF: I think it was ‘77. After that, I went to work on the very first World Development Report. My memory is that we started working on that in the Autumn of ‘77.

HEATH: Okay fair enough.

WOLF: I think that would have been right, because then I worked on the World Development Report; the cycle I think went from autumn to summer. I worked with all my friends, I’m still very proud of, the very, very first World Development Report which I know was a very important innovation in bringing ideas together, bringing lessons together. That was one of McNamara’s brilliant ideas. McNamara was a very extraordinary man. He said, we should do something like this to say what we think about development, so I was very excited to do that. But yes, I worked on India for three years.

HEATH: Yes, and just as a footnote, your comment about the World Development Report, it
was at McNamara’s behest that they added the annex on statistics of the different countries which subsequently blossomed into the World Development Indicators.

**WOLF:** Yes. As I said, he’s a genius. His insistence that things be quantified was completely correct. Things had to be quantified. So, I agreed with it completely and the World Development Indicators is a wonderful, wonderful thing. Unfortunately, while it’s a necessary to quantify, it is not sufficient.

**HEATH:** Yeah, exactly. Would you like --

**WOLF:** Anyway, my experience in India. So, I had basically did two —

I led a small team of economists who were wonderful people, some of whom remain friends. I wrote the Country Program Paper which was an influential document and then I worked on helping on the Annual Economic Report. My work on that throughout was entirely on India’s trade policies, import substitution program, the case of great export orientation and that work led to very large reports that we published. Later on, in 1982, the World Bank published a book of mine called *India’s Exports* which really summarized my work on this.

In the context of becoming experts on India’s trade policy, I became an expert on India’s import control regime which was arcane in the extreme, and I wrote a lot of reports for the division on how that was evolving and how it would affect India’s development. So that was the main intellectual focus of my work apart from producing the Country Program Paper.

**HEATH:** Right. Let’s move to the final phase of your career in the Bank, when you were a senior economist in the International Trade Capital Flows Division. This is in the Development Economics Complex.

**WOLF:** Yes, that was for Helen [Hughes]. Helen was the department head then.

**HEATH:** Right. That was from 1979 to 1981.
WOLF: That is correct.

HEATH: So, when you first took that job, I guess Hollis Chenery was still the Chief Economist, was he?

WOLF: Yes. I should say, I took this job after an eight-month break when I went to the UK as a sabbatical where I wrote various things up. I had become increasingly interested in global trade policy and I was now very clear I was going to leave the World Bank. So, I took this job with a view to leaving. It was not something I would have taken if I had any intention of pursuing a career in the World Bank. It was absolutely clear I was not going to pursue a career in the World Bank. So, I focused on global trade policy issues.

HEATH: Right. Did you overlap -- did Anne Kruger come in before you left?

WOLF: Yes. Anne became a good friend of mine. She indeed came in and our views on trade policy were fairly similar. Indeed to this day, I remain basically on the same line on trade policy and Anne is a good friend of mine.

HEATH: How would you characterize what must have been an enormous difference in the economic world view of Chenery on the one hand and Kruger on the other?

WOLF: The differences were utter, absolute. Hollis was a planner. He believed in structural economic models and quantitative models and Kruger was a market-oriented trade economist. She was determined to bring more market thinking into the economic thinking of the World Bank. I think in the divisions it didn’t make such a huge difference but in the research complex, it certainly made a huge difference.

I was never very sympathetic to the way – I thought Hollis was a decent and honorable man and obviously an able man, but I didn’t really think about economics the way he did. I thought he thought of economics like an engineer and that’s not my orientation. At that stage, I might differ now, but at that stage, I was quite sympathetic to the shift to Anne. But there is certainly no doubt that this created some turmoil and there were economists who were sympathetic to Anne.
and there were lots and lots of very good friends of mine like Larry Westphal, who were really quite unsympathetic and found it very troubling.

HEATH: Do you think that DEC [Development Economics Vice Presidency] had much influence on the operational divisions of the Bank?

WOLF: That’s an extremely good question. They might have had some influence via McNamara. But my sense, when I worked as a divisional economist, is that we paid attention to some researchers who had a lot of impact because they were seen as intellectually credible. Bela Balassa, for example, was a significant intellectual figure who influenced my work quite a bit. But mostly, and a lot of the work that was done in DEC struck us working in the operating divisions as pretty arcane and irrelevant from our point of view. I don’t think it really had all that much influence upon us.

That might be unfair, there might well have been other people working on other countries who found particular things that they were doing very helpful. But I think, for example, my friend Montek Ahluwalia Singh went into DEC for a long time himself tended to feel that most of what they were doing was really not very useful.

HEATH: Right. Let me ask you finally, a different subject. The role of the Bank in relation to the United States. To what extent in the 1970’s was the World Bank essentially a creature of the United States and influenced driven by the agenda of the United States? Did it have an autonomy in relation to the U.S. or what did you think?

WOLF: I think that’s a very, very interesting question. At the time, I think we were rather unaware of the influence of the World Bank because it went through McNamara and it was cushioned, if you like, by McNamara. So, we felt it was the influence of Bob McNamara. In retrospect, it is quite clear that there are lots of areas where the U.S. influence was extremely heavy.

I didn’t feel it when working on India except that obviously they were very keen that we help
India because it was a strategically important country. So, since the orientation of the department was to do that anyway, it didn’t require much pushing. When I read subsequently about our work in Africa, particularly in countries that I didn’t get involved in like Zaire, Congo, or on the negative side, Ethiopia. It’s pretty clear that actually the U.S. influence was very, very strong. I didn’t feel it directly and personally.

As I said, to me, because obviously I wasn’t at the senior level where the strategic decisions were being hammered out, I didn’t perceive the pressure coming upon the Bank. So, I actually learned about it only later when I read books about specific countries and I have given you some examples, Latin America and other examples. In Korea, I knew that the Americans were very involved, but it was obviously a tremendous success so there wasn’t a real issue as far as we were concerned. Other than that, I don’t feel I worked on any country that was a really big hot potato in the American context where we might have wanted to do something and the American’s wanted us to do something else. That wasn’t the direct experience I had. It’s clear that there was huge influence, but to me, I have to say at my level, pretty well hidden.

HEATH: Very finally, taking us a bit outside the period, looking in retrospect at the role of the World Bank. Is there still a place for it in today’s world and what sort of role do you think it should play?

WOLF: That’s a huge question to which I’ve never written a column about it probably because I don’t know what to think about it. I was very sympathetic to Ernie’s [Stern’s] view back in the early nineties that the Bank had planned to shrink. I thought Jim Wolfensohn was far too grandiose in his views. Broadly speaking, and this is very broad, I feel the Bank has, leaving a special case of transition which occurred in the nineties from communism, that it has two roles.

One is very straightforward. It will continue to be involved in Africa and few other areas with very, very poor countries for a long time, but that should diminish. But it still has a substantial fundamental role, I think. Apart from that, I do believe that the Bank has, and should have, a role in generating and providing information and knowledge to people across the developing countries about what works, what doesn’t work, how it works. That is difficult to do without

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operations, so it seems to me that’s a case for continuing operations.

But the operations the Bank should do should always be in areas that are at the frontier where the private sector is not going to do it, where you need an extensive government role and where the Bank can provide the knowledge and experience it has accumulated to help governments. These would tend to be new areas.

And finally, as to that, I’ve become persuaded that there is quite a role for the Bank to deal with cross border problems. Including global issues like climate change but also cross border problems dealing with things like management of river basins, all these sorts of things like cross border infrastructure, things which aren’t purely national.

So, it seems to me that the existence of the World Bank will never again have the role it had in the seventies or earlier and that is wonderful because it means development has succeeded in important ways. That’s exactly what we wanted to happen. But the Bank can continue to have a role, provided its focus is fairly precisely on areas where it can do things and provide something that no other institution can do or provide. So, it’s a global asset and has tremendous knowledge, but I tended to feel under Wolfensohn and I haven’t focused on it much since then, but it got ludicrously overstretched.

In terms of what it is actually doing at the moment, Mr. Kim is incredibly controversial, I know this. It seems to me in terms of what he’s targeting, health and things like that, that actually makes sense to me.

HEATH: Mr. Wolf, thank you so much. This has been one of the best and most fascinating interviews I’ve conducted of the 52 and I really would like to thank you very sincerely on behalf of the World Bank.

WOLF: It’s a great pleasure. Thank you very much.

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