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From Commission Staffer to International Banker-- A Visit with Gene Rotberg

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Nine years ago Eugene H. Rotberg left the Commission staff to become Treasurer of the World Bank. Last October he was promoted to the additional position of Bank Vice President.

Although he had just returned from business in Tokyo, Mr. Rotberg graciously consented to answer some questions for EMPLOYEE NEWS about his current position and how it compares with the work he did at the SEC.

Q. Everyone's hears of the World Bank, but exactly what kind of organization is it and what is its purpose?

A. *The Bank operates under a corporate type structure. Its capital stock, however, is owned by governments whose voting power in the Bank is based on their capital commitment. But most of the Bank's financial resources are borrowed throughout the world from governments and from the private sector. The Bank earns a profit and accumulates reserves. Its purpose is to assist in the economic development of less - developed countries. That means we are trying to provide resources both in financial and human terms where it is needed and can be productively utilized.*

Q. As Vice President and Treasurer, what are your responsibilities at the World Bank?

A. *Mostly, I sign my name. But that's not as easy as you might think. I broke a finger playing softball with our daughter, Pam, and it hasn't healed yet. There are two other primary responsibilities which are shared with my colleagues: (a) identify where financial resources accumulate in either the private or public sector and borrow those resources at fair and reasonable terms, (b) manage the Bank's liquid resources. As a practical matter, the latter means managing managers.*

Q. You served as Associate Director for theCommission's Division of Trading and Markets and as Chief Counsel of its Office of Policy Research. How did this and other experience at the SEC prepare you for your position at the World Bank?

A. *I guess I learned to ask questions to find out how things actually worked. In the early years at the Commission, the story is told that some Commissioner (obviously a staff member tells this story) went to New York to see the "counter" over which business was done in unlisted securities. Don't laugh. Some still think, or at least act as if business is done through an "auction" or in a "black box," or by a "national market system." I found it more useful to ask what motivates people to take or reduce risk? how individuals make decisions to invest resources under their control? what factors or pressures influence investor preferences for, say, liquidity and what is it worth to them; what factors influence whether financial savings are channelled into one particular investment medium or another, etc. Later, maybe you don't spend so much energy looking for the Euro-market, the Asian dollar or the SDR.*

But perhaps most important was the sense of ethical or social responsibility felt in the Commission. The values of the Commission are ones which develop and mold one's future professional lifestyle. You work for years with Manny and Irv and the effect lasts.

Q. At the Commission you were one of the professional attorneys on the staff. How does the professional staff of the World Bank compare with that of the Commission?

A. *The Commission's staff was pretty aggressive. The style was adversary. I liked it. Still like it. My lifelong friends are still there. The outside world was looked upon as being made up of those who had to be protected on the one hand and robber barons on the other. Now, perhaps a few robber barons are my friends. The rewards and punishments were quick in coming at the Commission. In the Bank the results of most of the work product won't be seen for quite awhile. Therefore, the satisfactions from knowing that the job is well done are not as immediate. For a variety of reasons, there is less sense of comaraderie of those inside the Bank versus those outside. Perhaps I'm just older. But I think the primary reason is that the evil to which the Bank addresses itself, while certain and observable--basic poverty and human degradation--is not so clearly focused and identifiable, as is an anthropomorphic financial miscreant under oath. The same idealism, however, is here but it's muted. At the Commission, the halls are full of talk about violators and corruption and unfair advantage. Economists at the Bank don't talk that way about poverty, malnutrition, infant mortality and job opportunities. They talk of growth targets and regression analyses. (When I was at the Commission, there were very few economists. Perhaps they talk that way all over--even at the Commission.) But the social commitment is here nonetheless. Otherwise they wouldn't be at the Bank. The Bank staff is also very smart. They are also smooth and effective.*

Q. The *American Banker* in its May 9th issue reported that you supervise the World Bank's $9.2 billion investment portfolio. How do you handle that tremendous responsibility?

A. *I don't supervise the portfolio. I try to supervise the staff who supervise the portfolio. My role is straightforward. The first responsibility is to create and maintain an environment where the staff feels comfortable in doing what is right. The second is to ensure that we do not cover up mistakes by foregoing taking actions which would make those mistakes visible. That means if we have already made a mistake, say, by making an*

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investment which declines in value, sell it--show the loss--if you think that you can make better use of your resources at the time. Third, select staff who have healthy egos, can admit to error, are aware of their propensity or reluctance to take risk and, most important, are not overly impressed by their responsibilities. The technical aspects of the work are rather uncomplicated. As for the sense of "responsibility," that comes from acting as a fiduciary for someone else's money. The amount is irrelevant.

Q. How does the investment portfolio of the World Bank compare with that of a large investment fund or a large bank?

A. *I suppose it's the largest actively managed pool of short-term financial resources in the world.*

Q. One thing that has impressed me since working for the SEC is that all investments involve some risk. Have you found "riskless" investments for the World Bank?

A. *There is always risk in buying, holding or even selling a financial asset. The risk is simply that you will purchase or sell either too early or too late or that there were, in retrospect, better alternative investment opportunities. We try, however, to measure our risks, which we define as the uncertainty of future returns. That uncertainty is quantitatively expressed in probability terms. We then seek, for a given amount of uncertainty, that investment which we believe has the greatest potential for gain. We sell those instruments where we expect, among all alternative opportunities, to obtain the least benefit for a given amount of uncertainty. The decision to buy or sell is a continuing and inseparable process. If we hold something in our portfolio, that is an implicit decision that at that exact moment, we would buy, if it weren't already in the portfolio. Otherwise, we would sell it and buy something else with a greater potential return. There is no intellectual credibility to a "hold" recommendation. A "hold" decision in effect is an implicit and continuing "buy" recommendation in that the continuing commitment is equivalent to rejecting an investment in any other alternative instrument. In short, if you own it, you must like it. You must, by definition, consider that particular investment as having the most potential benefit for a given amount of uncertainty.*

Q. How do you determine which securities to buy, when to buy and, especially, when to sell?

A. *Imperfectly and with humility.*

Q. As Treasurer, you're responsible for the Bank's borrowing program. How is that program handled?

A. *There are four or five staff members who initiate, negotiate and prepare our borrowing operations. It's not very complicated. There is only one "market." It's what informed persons who have a variety of financial resources and opportunities demand in order to lend you their money. You simply ask them directly what they want. What currency? What maturity? What interest rate? What liquidity? And, they tell you--sometimes directly, sometimes through financial intermediaries. The process is straightforward. It is essential to deal with people you can trust and on whom you can rely, both in terms of integrity and expertise, to report that information to you. If you can afford to pay the price, you pay it; if you can't afford to pay it, you don't do the transaction. I used to sell women's shoes when I was in school. You determine what the customer needs and wants. You find out what fits, what makes them comfortable; you offer what will give the most pleasure and the least pain at the least cost to both of you. Freud, you know, really founded the Harvard Business School. The discipline is not all that different.*

Q. Do you still find time to teach at George Washington University?

A. *No. Perhaps I still have the time but I haven't kept up with recent developments in the securities industry. There is so much stuff out there and professors are expected to let students know what is being said and written. In my more cynical moments, I thought I should continue to teach--on the grounds that nothing has changed: buyers had to find sellers and sellers had to find buyers and all the fussing around mainly concerned who, if anyone, was going to act as a middleman and at what profit, if any. As the years went on, that matter lost some of its emotional appeal. I could, of course, have created a complex superstructure rationalizing the subject saying that it involved the future of capitalism "as we know it," the preservation of the free enterprise system, the continued growth of capital formation, the essence of democratic capitalism, and the preservation of one's inalienable right to liquidity and a secondary market. But I'm afraid I couldn't quite convince myself.*

Q. And one last question, what do you consider your greatest accomplishment and embarrassment?

A. *Hiring Stanley!*

Q. Stanley who?