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THE WORLD BANK AND SOCIAL TRANSFORMATION IN INTERNATIONAL POLITICS

LIBERALISM, GOVERNANCE AND SOVEREIGNTY

DAVID WILLIAMS

The World Bank and Social Transformation in International Politics

Liberalism, governance and sovereignty

David Williams

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The publisher has gone to great lengths to ensure the quality of this reprint but points out that some imperfections in the original may be apparent.

The World Bank and Social Transformation in International Politics

In the 1990s the World Bank changed its policy and took the position that the problems of poverty and governance are inextricably linked. Improving the governance of its borrower countries became progressively accepted as a legitimate part of the World Bank's development activities. This book examines why the World Bank came to see good governance as important, and evaluates what the World Bank is doing to improve the governance of its borrower countries.

David Williams examines changing World Bank policy since the late 1970s to show how a concern with good governance grew out of the problems it experienced over structural adjustment lending, particularly in sub-Saharan Africa. Whilst providing an account of the early years of the World Bank through the to 1990s, the book also systematically relates the policies of good governance to liberalism. A detailed case study of World Bank lending to Ghana demonstrates what the attempt to improve 'governance' looks like in practice. Williams assesses whether the World Bank has been successful in its attempts to improve governance, and draws out some of the implications of the argument for how we should think about sovereignty and how we should understand the connections between liberalism and international politics.

This book will be of interest to students and scholars of international relations, politics, economics, development and African studies.

David Williams is Lecturer at the Centre for International Politics, City University, UK. His research interests are in the area of international relations of development. He has previously published in *Political Studies*, *Review of International Studies* and *Millennium*.

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Contents

Introduction

In a report published in 1989 the World Bank first publicly indicated its commitment to the idea that 'good governance' was important for development success (World Bank 1989). Given how ubiquitous the idea of good governance has become in development circles, it is easy to forget how controversial this was at the time. In particular, the idea of good governance seemed to signal that the Bank was taking 'politics' more seriously – something that many people inside and outside the Bank were opposed to. Through the 1990s, however, improving the governance of its borrower countries became increasingly accepted as a legitimate and important part of the World Bank's development activities. Indeed, the World Bank now argues that 'the problems of poverty and governance are inextricably linked', and that 'strengthening governance is an essential precondition for improving the lives of the poor' (World Bank 2002a: 271). This book considers two questions: why the World Bank came to see 'good governance' as important, and what the World Bank is doing to improve the 'governance' of its borrower countries.

Part of the answer to these questions is provided by an empirical account of policy change and implementation. The book examines changing World Bank policy since the late 1970s to show how a concern with good governance grew out of the problems the World Bank was experiencing with structural adjustment lending, particularly in sub-Saharan Africa. The book also examines in some detail World Bank lending to Ghana to show what the attempt to improve 'governance' looks like in practice. What this book insists on, however, is that the process of policy change and implementation can only be understood by reference to the ideas about social transformation that underpin the policies and practice of good governance. This book argues that good governance is a specifically liberal project of social transformation.[1] What drives this argument is the view that liberalism is more than simply a body of normative political theory about, for example, such issues as political obligation or justice. Rather, liberalism is a way of thinking about social transformation. While this is an unusual way of thinking about liberal thought, it really should not be; after all, historically liberal thinkers were concerned, perhaps above all, with changing the world around them.

Liberalism, understood as a project of social transformation, then, is in international politics in the sense that it is expressed through the policies and practices of the World Bank. This is a rather different view of the connections between liberalism and international politics than those dominant within the discipline of International Relations. A very great deal has been written about the relationship between liberalism and international relations. Much of this literature has remained at the level of normative political theory, and has produced extensive debates about such things as the nature of international obligations, redistributive justice and human rights. Much less attention has been paid to how, exactly, liberals have tried to make their commitments real in the world. Partly this is because many within the discipline of International Relations have presumed that such attempts are likely to prove fruitless. Nonetheless, some of this work is emerging, focusing for example, on the role of NGOs, international organizations, and campaigning groups in changing state behaviour (Finnemore 1996; Keck and Sikkink 1998). Very little attention, however, has been paid to the kinds of strategies, tactics and techniques employed by organizations devoted to the task of making liberalism real in the politics, economies and societies of developing countries. And this is exactly what the World Bank is trying to do. To substantiate this argument it is necessary to examine both World Bank policy and the details of its lending practices. The examination of Bank policy reveals how it replicates characteristic liberal positions on the state, the economy, civil society and the individual. The examination of its lending practices brings to the fore the connections between the techniques and strategies employed in its development projects and liberal thought about the possibilities of social transformation.

Examining the policies and practices of good governance also reveals the extent to which the sovereignty of many developing countries has been severely compromised. The World Bank's pursuit of 'good governance' signals the end of what we might call the 'sovereignty regime' that shaped the external relations of many of these countries up to the end of the Cold War. The sovereignty accorded to many post-colonial states was historically unusual, as Robert Jackson has argued (Jackson 1993). But there existed a general commitment to the idea that these states were sovereign, and that their sovereignty was, in principal, desirable, both for them and for the conduct of international affairs. This in turn conditioned relations between these states and development agencies like the World Bank. Governments were understood to be the lead agent in the development project, and

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agencies like the World Bank generally limited themselves to the provision of capital and technical assistance. In contrast, the pursuit of 'good governance' entails detailed and highly intrusive development interventions in almost all aspects of social, political, and economic life. The rise of a concern with governance signals then not just the significance of liberalism in international politics, but also the declining significance of sovereignty as a way of organizing relations between developed and less developed states.

Liberalism and the World Bank

Arguing that the World Bank's pursuit of good governance is a liberal project of social transformation requires making two initial analytical steps. The first is to argue that 'ideas' matter for explaining what the World Bank does, and the second is to argue that the relevant ideas are best described as 'liberal' rather than 'neo-liberal' – a term more often used in descriptions of World Bank policy.

There is a great deal of literature which suggests that what the World Bank does can be explained without reference to ideas. It comes in essentially two forms. First, there is the argument that the World Bank is controlled or substantially influenced by its major shareholders, particularly the United States, and thus that the Bank is essentially an instrument of US foreign policy, or at least the foreign policies of Western states. It has been argued, for example, that 'without any doubt' the World Bank is a 'political arm of the big industrial governments, mainly the United States', and that the activities of the World Bank 'must be of such a nature to reflect primarily US economic, financial and political interests', or that it is 'dominated by the interests and politics of the rich', which include the US, Britain, Germany, France, and Japan (Feder 1976: 334; George 1976: 263). Again, it has been suggested that the Bank is 'necessarily biased towards the interests of its major shareholders', that it has 'been obedient to the wishes of the US executive branch ever since it was founded', and that the US 'has always been able to control the direction of its lending' (Hayter and Watson 1985: 150; see also Payer 1982).

A second line of analysis has been concerned with showing that the interests of the World Bank itself, or of its component bureaucratic parts, are central to explaining what it does (Vaudel 1991). Philippe Le Pestre, for example, has argued that the World Bank, like all international organizations, has three 'fundamental goals': survival, decision-making autonomy and control over resources; all of which take precedence over the pursuit of the purposes for which it was created (Le Pestre 1986; see also Burnham 1994). Barbara Crane and Jason Finkle analyzed the emergence and practice of the World Bank's population control programmes during the 1970s

(Crane and Finkle 1981). While the need for such programmes was accepted by Western governments, it was not accepted by many Bank staff. Crane and Finkle argued that the programmes 'lacked a strong base in the internal organizational structure of the bank' and were hence subordinated to other priorities. They argued that the implementation of these programmes was shaped by the special relationship that staff members developed with their clients, particularly ministries of finance, which they were unwilling to jeopardize by giving population control a high priority (Crane and Finkle 1981: 518; see also Ascher 1983).

Neither of these two arguments is wholly wrong. There is indeed plenty of evidence that the US government has influenced aspects of the Bank's operations and policies (Gwin 1997). There is good evidence that the Bank was pressured by the US to suspend lending to Chile after Allende's election in 1970, to Vietnam in 1977, Nicaragua in the 1980s and Iran in the 1980s and 1990s (Brown 1992: 157–70, 185–90; See also Kapur 2002). There is also evidence of a direct attempt by the Reagan administration to pressure the Bank into adopting a more 'market friendly' approach to development (Ayres 1983: 230–2). In recent years Robert Wade has traced the influence of the US government, and particularly the US treasury, in a series of articles. He has argued that 'American values and interests' are of 'determining importance' in the functioning of the Bank (Wade 1996: 35). More concretely he has argued that the high-profile departure of then Chief Economist Joseph Stiglitz from the Bank in 1999 was the result of direct pressure from the US Treasury (Wade 2001). One obvious factor identified as a source of control over the World Bank is voting power on the Board of Directors. In general the amount of votes a country has on the Board is determined by the amount of capital that countries pay into the Bank, and this means that voting power is heavily concentrated in Executive Directors which represent Western governments.[2] The US currently holds the largest share of the votes, about 17 per cent, followed by Japan with about 6 per cent, and Germany, France and Britain, each with around 5 per cent. The Board is charged with the day-to-day running of the Bank, and approves all loans, policies, and Bank reports. There are also more 'informal' mechanisms for the US to exercise influence. One commentator has suggested that 'any signal of displeasure by the US executive director has an almost palpable impact on the Bank leadership and staff' (Ascher 1992: 124).

The stress on the bureaucratic nature of the World Bank also reveals something significant about it as an institution. It is a large, complex and diverse organization. There are more than 8,000 staff working in over 60 separate departments in Washington, DC, and more than 65 field offices. Staff specializations range from macroeconomic modelling to marine conservation and from decentralization to debt management. In an organization such as this there are going to be disputes and disagreements and problems of communication and coordination. These problems have led to periodic attempts to reorganize the Bank in order to make it more efficient and 'results focused'; although it is doubtful if these reorganizations have overcome the almost inevitable bureaucratic problems associated with organizations of this size (Weaver and Leiteritz 2005). It is also the case that the World Bank's mission has expanded remarkably in the last twenty years, and this book is partly about that expansion.

What the World Bank does, however, cannot be reduced simply to these two elements. In recent years there has emerged a consensus that in fact the World Bank is relatively autonomous from its major shareholders.[3] First, despite the formal and informal power of the US, the Bank's top management has in fact shown a remarkable ability to resist pressure from the Executive Board, in large part because of the time pressures facing Board members, their relative lack of expertise, and the sheer size and complexity of the Bank (Vetterlein 2007: 133–4). Second, much of the World Bank's more routine work is not of direct political and economic significance to the major states; this is certainly the case with many of the projects reviewed in this book. It is simply wrong to draw a direct line between the interests of the US government and a water and sanitation project in Ghana. Or, to put it anther way, we should make a distinction between this kind of routine everyday Bank activity and the Bank's response to certain crises (for example the East Asian Financial Crisis) or its activities in certain politically strategic states, where the influence of its major shareholders is likely to be more significant (Woods 2006). This is not to deny the influence of the US on many aspects of the Bank's functioning and operations, it simply means that what the Bank does cannot be explained solely with reference to the actions and interests of the US. The bureaucratic nature of the World Bank is important, particularly for the process of policy change within the Bank. Indeed if it is the case that the World Bank has some autonomy from its major shareholders then some attempt to get inside the 'black box' of the Bank is likely to be important if we want to explain how and why the World Bank's policies and practices change over time (Vetterlein 2007; Gulrajani 2007).

What both of these views are missing, however, is any account of how the World Bank has come to think about development; an account, that is, of how it thinks about and conceives of the problems facing developing countries, and how it thinks about and conceives of solutions to these problems. We want to know, in other words, what the World Bank's 'collective image' of development is.[4] The argument of this book is that it is liberalism which provides the Bank with the resources for thinking about development.

This stress on liberalism is in some contrast to the term 'neo-liberalism' that is more often used to describe the World Bank's development policies. As a description of World Bank policies, 'neo-liberalism' came to the fore in the 1980s, as the World Bank came to stress market liberalization and marketization through its structural adjustment programmes. Used in this way 'neo-liberal' was synonymous with the resurgence of 'neo-classical' economics in development policy (Toye 1987). There is a certain merit to the term 'neo-liberal' as a description of Bank policy in the 1980s, but it is too narrow a term to describe Bank policy in the 1990s and particularly the ideas of good governance. It is not that the World Bank has moved away from a commitment to the allocative efficiency of the market mechanism; it is rather that the Bank has come to embrace a much broader account of social transformation that includes, but goes much beyond, the establishment of markets. Even those who continue to embrace the term neo-liberalism have recognized that the emergence of good governance signals a much wider development project. Craig and Porter, for example, argue that changes in development policy since the 1990s can be cast as the political and economic project of a 'wider historical liberalism' (Craig and Porter 2006: 7). They still want to hang on to the term 'neoliberalism' but to append to it the labels 'inclusive' or 'positive' to distinguish it from the 'conservative' neoliberalism that, so they argue, characterized the era of structural adjustment (Craig and Porter 2006: 21). Similarly, Graham Harrison has argued that the policies of the World Bank are best seen as 'neoliberal', but that in their more recent phase they indicate a desire to 'embed' liberalism that requires going beyond the 'neoliberal fundamentals' to include the engineering of states and societies (Harrison 2004: 66).

While there is much to agree with in Craig and Porter's and Harrison's accounts of the World Bank and good governance, the utility of hanging on to the 'neoliberal' label is unclear, especially as what the World Bank is doing goes far beyond 'market fundamentals'. Second, the project of radical social transformation that they see in 'neoliberalism' is not very different in kind from other versions of the liberal project. That is, neoliberalism is not a special or unusual kind of liberalism, it is liberalism. Finally, and related, the use of the term 'neoliberalism' lets liberalism 'off the hook' as it were, by implying there is some other kind of liberalism that does not imply or require the transformation of social institutions and practices. As will become clear in the next chapter, liberalism in its entirety has been fundamentally concerned with social transformation.

This book argues then, that the policies and practices of 'good governance' are a specifically liberal project of social transformation. Liberalism provides the concepts, categories and arguments of the policies of good governance, and the content of World Bank projects and programmes derives from its commitment to liberalism. Finally, the process of policy change within the World Bank has been structured by a set of commitments to liberalism. This process of policy change has involved other elements too, including at various times the influence of Western states, and certain bureaucratic features of the Bank as an organization. Nonetheless, the central process has been a working through of the implications of the concepts and categories of liberal thought for development policy and practice.

The normative question

If it is right that the World Bank is engaged in a liberal project of social transformation, what are we to make of it? It might be argued, and many liberals would argue, that this is highly desirable. To the extent that the World Bank succeeds in its project, they might say, then all to the good. This argument can be made in two ways. One can simply argue that liberalism provides the 'right' way for societies to be organized, or one can argue that the achievement of liberal institutions and practices is highly functional in the modern world in that it allows countries to benefit from profitable engagement with the international economy and so achieve growth and development. Both ways of responding suggest that the erosion of sovereignty that has accompanied the rise of good governance is an entirely acceptable price to pay for the achievement of liberalism.

An initial response to these kinds of arguments is to say that discussions about what Western agencies should and should not be doing ought to be conducted on the basis of what they are actually doing. Far too often the self-descriptions produced by these agencies are taken as the basis for an assessment of whether their activities should be supported. What this book suggests is that we withhold judgement until we have a better sense of what is actually entailed in the introduction of liberal institutions and practices. When we do have a better sense of this we might start to feel rather less comfortable about unquestionably endorsing these activities. 'Good governance' entails a detailed reworking of the way people conceive of themselves and their social relations, and a deliberate and fine-grained attempt to eliminate certain ways of being. This project is currently being pursued by external agencies that purport to have privileged access to knowledge about how societies should be organized. And all of this is taking place with no guarantee of success. We may still decide that on balance it is desirable for the World Bank to be pursuing this project of social transformation. But we should at least be aware of what this entails before we draw that conclusion.

Outline

The next chapter tries to substantiate the claim that liberalism can be understood as a project of social transformation. The key conceptual shift here is to have an expanded account of what liberalism can be. Too often liberalism is taken simply to be a body of normative theorizing. We suggest instead, that liberalism be understood as a project of social transformation, and that liberal theorizing should be understood as an extended reflection on the desirability and possibility of this transformation. Chapter two examines the foundation and early years of the World Bank, but it does so by examining aspects of the normative structure of international politics, and the emergence and institutionalization of the idea of 'development'. Chapter three traces the emergence of a concern with good governance since the late 1970s, stressing in particular how the World Bank responded to the problems and failures of structural adjustment lending. Chapter four looks at the increasing acceptance of the idea of good governance within the Bank through the 1990s, and then systematically relates the policies of good governance to liberalism. Chapter five looks at how the World Bank has attempted to improve governance in Ghana. Finally, chapter six makes an initial assessment of how successful or otherwise the World Bank has been in its attempts to improve governance, and draws out some of the implications of the argument for how we should think about sovereignty, for how we should understand the connections between liberalism and international politics, and for the normative question we posed above.

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