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**'Highly  
Recommended'**  
Ha-Joon Chang

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# The Political Economy of Development

The World Bank, Neoliberalism and  
Development Research

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**Edited by Kate Bayliss,  
Ben Fine and  
Elisa Van Waeyenberge**

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IIPPE



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Kate Bayliss, Ben Fine and Elisa Van Waeyenberge



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## The Political Economy of Development

## Political Economy and Development

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Edited by  
Ben Fine (SOAS, University of London)  
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Political economy and the theory of economic and social development have long been fellow travellers, sharing an interdisciplinary and multidimensional character. Over the last 50 years, mainstream economics has become totally formalistic, attaching itself to increasingly narrow methods and techniques at the expense of other approaches. Despite this narrowness, neoclassical economics has expanded its domain of application to other social sciences, but has shown itself incapable of addressing social phenomena and coming to terms with current developments in the world economy.

With world financial crises, no longer a distant memory, and neo-liberalism and postmodernism in retreat, prospects for political economy have strengthened. It allows constructive liaison between the dismal and other social sciences and rich potential in charting and explaining combined and uneven development.

The objective of this series is to support the revival and renewal of political economy, both in itself and in dialogue with other social sciences. Drawing on rich traditions, we invite contributions that constructively engage with heterodox economics, critically assess mainstream economics, address contemporary developments, and offer alternative policy prescriptions.

Also available:

*Theories of Social Capital: Researchers Behaving Badly*  
Ben Fine

# Acronyms and Abbreviations

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AAA	Analytical and Advisory Activities
AICD	Africa Infrastructure Country Diagnostic
AIDS	Acquired Immune Deficiency Syndrome
ANDS	Afghanistan National Development Strategy
ARD	Agriculture and Rural Development
AREU	Afghan Research and Evaluation Unit
ART	Anti-Retroviral Therapies
BalAEF	Baltic American Enterprise Fund
BBI	Bringing Back In
BIS	Bank for International Settlements
CBO	Community-Based Organisation
CDF	Comprehensive Development Framework
CEE	Central and Eastern European
CIS	Commonwealth of Independent States
CN	Counter Narcotics
CND	Counter Narcotics Directorate
CPAU	Cooperation for Peace and Unity
CPIA	Country Policy and Institutional Assessment
DEC	Development Economics Department of the World Bank
DECRG	Development Economics Research Group
DfID	Department for International Development
DIA	Defense Intelligence Agency
ECB	European Central Bank
ESW	Economic and Sector Work
FAO	Food and Agriculture Organisation
FCR	Full Cost Recovery
GDF	Global Development Finance
GDP	Gross Domestic Product
GFRP	Global Food Crisis Response Program
GNI	Gross National Income
HIV	Human Immunodeficiency Virus
I-ANDS	Interim Afghanistan National Development Strategy
IBNET	International Benchmarking Network
IBRD	International Bank for Reconstruction and Development

ICF	Infrastructure Crisis Facility
IDA	International Development Association
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
IFPRI	International Food Policy Research Institute
ILO	International Labour Organisation
IMF	International Monetary Fund
INFRA	Infrastructure Recovery and Assets
IPG	International Public Good
LDC	Less Developed Country
LIDC	London International Development Centre
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MIT	Massachusetts Institute of Technology
MNC	Multinational Company
NCNP	Neoclassical Neo-Populist
NGO	Non-Governmental Organisation
NIC	Newly Industrialising Country
NIE	New Institutional Economics
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PBA	Performance Based Aid
PPIAF	Public Private Infrastructure Advisory Facility
PPP	Public–Private Partnership
PRR	Policy Research Report
PRSP	Poverty Reduction Strategy Papers
PRWP	Policy Research Working Paper
PSD	Private Sector Development
PSP	Private Sector Participation
PWC	Post-Washington Consensus
SCP	Structure Conduct and Performance
SDH	Social Determinants of Health
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
SSR	Security Sector Reform
STI	Sexually Transmitted Infections
TVE	Township and Village Enterprises

UNDP	United Nations Development Programme
WBG	World Bank Group
WDR	World Development Report
WSS	Water Supply and Sanitation
WTO	World Trade Organisation



# Preface

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Late in 2006, the World Bank issued a report (Deaton et al. 2006) of the findings of an independent evaluation of research activities carried out by the Bank between 1998 and 2005 by a group of eminent economists chaired by Angus Deaton. However, it was with mixed feelings that in early 2007 a small group of us consulted the evaluation report. As longstanding critics of the Bank, such a review was most welcome to us. But we had doubts over the extent to which a review commissioned by the Bank itself would be sufficiently independent and critical and whether it would, in any case, have any impact. On balance, we were more than pleasantly surprised with the strength of criticism within the Deaton Report, which is a positive reflection upon the intellectual integrity of those who were involved in its production. In our view, it was imperative that the report's findings regarding the deficiencies of World Bank research should be widely broadcast, especially the Bank's blatant use and abuse of research for unjustified advocacy purposes. Such criticisms were not new, even from within the Bank itself, but the claim could no longer be made that the critics were dissidents of some sort or were without establishment credentials and status. The report seemed to offer the platform from which to strengthen calls for reform of the Bank's research, advocacy and, ultimately, policy.

Nevertheless, we found the deliberations of the Deaton Report to be limited in scope and depth – not least in the questions asked, the ways in which answers were constructed and the substance of those answers. This was largely by virtue of the deep commitment to mainstream economics of those involved in producing the report. For this reason, we organised a seminar series through the London International Development Centre (LIDC) with the purpose of bringing wider attention to the Deaton Report itself. The aim was to offer the Deaton evaluation as a critical point of departure for a more extensive assessment of the role of the World Bank in research on development and to explore alternative approaches.

The papers from that seminar series form the basis for this book. But the Deaton Report, whilst serving as the initial prompt and remaining as a critical reference point throughout the contributions, has occupied a considerably lesser prominence than originally

anticipated. This is for two reasons. First, to our surprise and great disappointment, the Deaton Report has scarcely been acknowledged by the development community (including, though this is less surprising, the Bank itself). Casual conversation with many leading scholars, practitioners and donors suggests that its existence has scarcely registered, let alone has its content been understood and absorbed.

In retrospect, this reflects our own optimism regarding the power of 'independent' peer review. With hindsight, the critical nature of some of the observations of the report may be the reason that it has attracted so little attention. As this volume documents again and again, and as the Deaton Report itself might have anticipated if it had paid sufficient attention to similar exercises in the past, its unwelcome deliberations from the Bank's perspective sealed its fate as far as wide dissemination and debate have been concerned. Accordingly, our volume could not assume that the Deaton critical assessments were common knowledge. Hence, the Deaton Report can only loosely be the basis from which we can probe for deeper reasons for the poverty of Bank research, advocacy and policy as well as making an assessment of the implications of, and alternatives to, such weaknesses. Thus, whilst as an intellectual exercise the Deaton Report is an excellent starting point, in practice it is something of a roundabout way of getting to our ultimate goals.

In addition, our efforts were unavoidably influenced by the maxim 'stuff happens'. Any assessment of World Bank research now needs to take account of the global crisis that broke at the end of 2007, and for a number of different reasons. First, and most important, the crisis sheds light on the realities of contemporary capitalism, including the past patterns of development as well as the prospects for the future. Second, no one can doubt, at least in principle, that mainstream economics has been rocked, if not wrecked, by the crisis and the form it has taken; this is especially so of the Bank's past research, so wedded has this been to the promotion of market forces in general and of those of finance in particular. The crisis provides substantial evidence to justify a reassessment of the Bank's activities as well as a re-evaluation of the contributions from its critics. Third, and paradoxically given that the Bank has been complicit with, if not a contributory causal factor in, the current crisis, its role alongside that of the IMF, has been strengthened in the wake of the crisis. Attention has turned to the International Financial Institutions as desperate attempts are made to find saviours and relieve the impact of the crisis in the

developing world. This opens up the need for critical assessment of the responses in research, policy and advocacy of the Bank as the crisis has unfolded. In general, we find the impact of the crisis upon the Bank has been one of business as usual, only more so.

While the substance of the crisis rested outside the Deaton deliberations that concluded prior to its onset, the value of our earlier starting point with Deaton has been to identify exactly what is business and what is usual for the Bank. It has also allowed us to strengthen our commitment to alternatives which will not now appear as unusual or radical as they might have previously. In the wake of the crisis, hitherto unimaginable economic policies have been not only imagined but adopted in the attempt to restore stability through that major instrument of instability, the global financial system and its national components. Furthermore, as events around the world illustrate the failings of traditional orthodoxy, the papers presented in this volume are a timely pointer to alternative perspectives.

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# Part I

## Preliminaries and Principles

The birth in 1998 of the post-Washington Consensus (PWC), launched by Joe Stiglitz (1998a) as chief economist at the World Bank, appeared at the time to be a dramatic event in signalling potential departure from the Washington Consensus, not least in scholarship. Nonetheless, it prompted two extreme reactions, possibly caricatured here, at opposite ends of the spectrum. One was to see this as another ideological shift in the continuing subordination of the Bank to developed-country (especially US) interests, with neo-liberal policies set to continue to be adopted. The other was to view this as a genuine shift in direction, enabling much greater potential through progressive engagement with the Bank.

In a volume that in many respects can be seen as a predecessor of this, a more nuanced position was adopted (Fine, Lapavistas and Pincus 2001). It sought to unpick the PWC across its different dimensions, focusing on scholarship, but also on policy in practice and the Bank's ideological shift from being dogmatically pro-market to, let us say, not being anti-state. It also demonstrated that the impact of the PWC across different topics was uneven and differentiated. The limitations of the PWC were also exposed in terms of an exclusive reliance upon the market-imperfections approach of mainstream neoclassical economics for which Stiglitz was renowned, if more widely applied than for (the new) development economics alone.

The present volume, with Jomo and Fine (eds) (2006) as something of an intermediate state-of-the-art stepping stone, continues to put flesh on the bones provided by these themes. But, as covered in this first part, it also adds to them in the following ways. First, it locates the impact of the PWC in the context of the continuing evolution of neo-liberalism, emphasising how much (as sharply revealed by the global crisis) it has been underpinned by what has been termed 'financialisation'. In many respects, the PWC can be seen as a more moderate and tempered version of neo-liberalism, seeking to pursue financialisation by means other than shock therapy. Making markets work, in other words; but the markets working, or advancing, most

over the period of the PWC have been those of finance. Second, this part charts the rise of the Bank as a self-proclaimed knowledge bank, albeit one with a somewhat more limited range of assets and derivatives than its real world counterpart. The rise of the knowledge bank is indicative of the increasing and deliberate command that the Bank exercises over development discourse, for both economic and social policy, projecting influence and control from its base within orthodox economics. It does so despite what, as exposed by the Deaton Report (Deaton et al. 2006), is poor-quality research by the standards of that economics. And despite, as we argue throughout the rest of this book, the impoverished capacity of such economics to address adequately the issues of economic, let alone social, development.

Since the launch of the PWC, there has been a considerable volume of excellent scholarly contributions exposing the limitations of the World Bank's research, of which, of course, the Deaton Report is one. Throughout this volume, we have drawn upon this research for both its critical substance and its offer of alternatives. What we have also sought to do, however, is to locate such research both in the wider role of the Bank itself and in its interaction with broader material and intellectual developments. This allows for such themes to be picked up in the case-study chapters that follow in Part II, finessing general developments and their interaction across particular fields of study.

# 1

## The World Bank, Neo-Liberalism and Development Research

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*Elisa Van Waeyenberge, Ben Fine and Kate Bayliss*

### 1.1 PRELUDE: A TALE OF THREE RESIGNATIONS

In the autumn of 2006, one week after its Annual Meetings, the findings were released of an external evaluation of World Bank research that had been undertaken between 1998 and 2006 (Deaton et al. 2006). The evaluation had been commissioned by the Bank and was carried out by a panel of four distinguished development economists, with Angus Deaton acting as chair.<sup>1</sup>

The period covered by the review had revealed itself to be particularly tumultuous in the history of Bank research. Joe Stiglitz, at the time vice president and chief economist, had opened 1998 with a bang. At the WIDER annual lecture, he delivered his now much-celebrated address, 'More Instruments and Broader Goals: Moving towards the Post-Washington Consensus' (Stiglitz 1998a). As indicated by the title, Stiglitz called for an urgent reorientation of the Bank's development paradigm, beyond what he perceived as the excessively narrow bias that was the basis of the Washington Consensus that had steered Bank policies during the 1980s and early 1990s. For Stiglitz, the Washington Consensus had been 'at best incomplete and at worst misguided' (p.3). A more 'holistic' and 'broad-based' approach to development was to be pursued through a broader set of policy instruments than those traditionally associated with the Washington Consensus – itself shorthand for macroeconomic 'stabilisation', i.e. fiscal austerity, trade liberalisation, privatisation, and so on. In the autumn of the same year, Stiglitz (1998b) issued another urgent call from a public platform for a new development paradigm to be promoted by the Bank. One year later, he was forced to resign from his job as chief economist.

Meanwhile the drafting of the 2000/01 World Development Report (WDR) was under way. 'Attacking Poverty' was important



for the Bank (World Bank 2001a). As a World Development Report, it summed up and publicly advertised Bank ideas in a particular area. Further, it was part of a longer-term exercise that sought, over a period of ten years, to reformulate Bank analysis and policy on poverty – with poverty reduction sitting at the heart of the Bank’s proclaimed mission. Ravi Kanbur, another distinguished development economist, known to be broadly in tune with the more comprehensive and ‘holistic’ approach advocated by Stiglitz and the then Bank president James Wolfensohn, had been tasked with leading the team writing the report. Yet by mid 2000, soon after drafts of the report had been circulated for comment to representatives of the Bank’s member governments and to researchers in and outside the Bank, Kanbur had departed his post.

Within the Bank’s main research department, the Development Economics Research Group (DECRG), led between 1998 and 2003 by Paul Collier, another drama was about to unfold. William Easterly, a senior advisor in the Macroeconomics and Growth division of DECRG since 1989, had received clearance from the Bank to write a book on some of his research findings regarding the causes of growth. After authoring an op-ed piece in the *Financial Times* summarising some of his findings, he found himself the subject of a misconduct investigation. He too had left his job at the Bank before the end of 2001.<sup>2</sup>

To the extent that the postures adopted by these three high-level Bank staff diverged from the official line espoused by the Bank, their positions became compromised and unacceptable. The resignations forced to the fore a set of tensions between scholarly efforts at the Bank, its advocacy role and the specific policy imperatives the institution was seeking to promote and, where necessary, defend.

This book seeks to assess critically the Bank’s development research both in how it affects particular debates and policies about development and through a closer look at the role it plays for the Bank itself, with particular attention to the shifting contradictions within and across Bank scholarship, its advocacy, and the policies the institution promotes. The Deaton evaluation provides a critical lens through which this endeavour is approached. The report sought to assess the extent to which Bank research contributed to its two main stated objectives: the generation of new knowledge on development and the broadening of the understanding of development policy. This was broached across nine fields of enquiry: macroeconomics and growth; fiscal policy, public sector management and governance; trade and international economics; poverty and