

Volume 1: History

Devesh Kapur John P. Lewis Richard Webb

THE WORLD BANK Its First Half Century

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Foreword

IN 1973, in connection with the World Bank's first twenty-five years, Edward Mason and Robert Asher wrote *The World Bank since Bretton Woods*, the first major authorized but independent history of the institution. Some years later, the Bank's retired senior executive, William Diamond, proposed that an overall history of the Bank's first half century be prepared by authors who, like Mason and Asher, would have full access to the Bank's people and papers but would write free of institutional control. It was decided the study should be seated administratively at an external organization, and, as a matter of fresh choice, not tradition, the Bank and the Brookings Institution agreed that, like the study by Mason and Asher, the new project would be based at Brookings.

Again there were to be two authors, but this time one should come from the North, the other from the South. In 1989 John Lewis of Princeton University in the United States and Richard Webb of Peru were recruited. Both had long known the Bank but neither had worked for it at great length. Webb had been on the research staff for five years in the 1970s before returning to Peru as governor of its central bank; Lewis, a veteran of USAID and OECD/DAC, had worked for and with the Bank in various consulting capacities. As research associate to the project, Brookings employed Devesh Kapur, an Indian national then pursuing a Ph.D. in public and international affairs at Princeton's Woodrow Wilson School. By mid-1993 Kapur had become so indispensable and so engaged in the writing that, by common consent, he was graduated to coauthorship.

For two components of this project the authors sought and gratefully accepted reenforcement. The record of the Bank's subsidiary, the International Finance

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Corporation, was important but substantially separate from that of the mother institution. Jonas Haralz of Iceland, a World Bank economist earlier in his career and the Nordic executive director on the Bank board in the late 1980s, was well qualified to address the IFC. Robert Wade, originally of New Zealand, later of the Institute of Development Studies in the United Kingdom, and currently of Brown University in the United States, wrote the chapter on the Bank's relationship with the environment.

From the beginning all parties to the project—the authors, the Bank, Brookings, and the international advisory committee recruited to help guide the venture—agreed that along with the main volume of history for which the authors themselves would be responsible, the work should include a second volume (edited by the authors of the first volume) consisting of views of the Bank from various external perspectives. The perspectives—a dozen in number—are those of close observers of the Bank's work and relations with its major shareholders, its interaction with financial markets and its Bretton Woods sister institution, the International Monetary Fund, its standing with the profession of development economics, and country and regional experiences with borrowers.

Brookings extends its thanks to the World Bank for the freedom and accessibility it has afforded the authors and adds its gratitude to all those whose help the authors acknowledge in the preface.

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The views expressed in this book are those of the authors and should not be ascribed to the organizations acknowledged above or to the trustees, officers, or staff members of the Brookings Institution or the World Bank.

MICHAEL H. ARMACOST

President

July 1997 Washington, D.C.

Preface

THE FOREWORD has outlined the general development of the World Bank history project and the focus and organization of the two volumes. We wish here to elaborate a bit. It may be useful to know the division of labor in volume 1. John Lewis was the principal drafter of chapters 8–10, 17, and 18; Richard Webb of chapters 2–7; and Devesh Kapur of chapters 11, 12, and 14–16. Kapur and Lewis collaborated on chapter 1. Robert Wade was chosen to write a chapter on the subject of the bank and environmental protection, not only because of his record as a policy analyst but also because he undertook the assignment without having a position on the issues. He wrote well and covered the subject thoroughly, but the chapter was long and the physical balance of the two volumes was better if we included it in volume 2. Its location there satisfies the concept of volume 2 well enough, but it should be read as an integral component of volume 1, analogous to the chapters on agriculture, poverty, and the social sectors.

Half the contributed chapters of volume 2 focus on the World Bank's relations with particular member countries. Volume 1 grapples even more with these relations. It was clear as we progressed that the Bank's overall experience and performance had to be illustrated by its transactions with individual borrowing countries. We could not possibly discuss the relations with each of them, but neither could we convey the texture of the experience without digging into country cases. We have done so fairly widely, selecting countries arbitrarily if not randomly. The result is a richer view of the record, but a lumpy one. In volume 1, along with fairly intensive discussions of Bank relations with fifteen or so borrowing countries during various portions of the fifty years covered in the story, we have one long chapter on the

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most challenging geographic region (sub-Saharan Africa) and another on a region (Latin America) that was involved in a particularly traumatic episode (the debt crisis). As a result, treatment of other areas—China is a major example—is thinner than we would have preferred.

We must record one particular regret. The biggest hole in the study's coverage is the Bank's experience since 1990 in eastern Europe and the former Soviet Union. That we would face a problem in this regard was evident when the subject surged into prominence well after our plan for these volumes, and related allocations of time and assignments, had become firm. Although we recruited a highly qualified author to write a chapter on the subject for volume 2, the deadline for submission was not met. By then it was altogether too late to contrive any substitute for the missing material. We apologize to our readers.

We acknowledge some of the volume 2 authors—among them S. Guhan, Catherine Gwin, Jacques Polak, and Nicholas Stern—whose final drafts were completed long before volume 1 was finished.

The principal authors are most grateful to the World Bank for the combination of access and independence they have been afforded. It is hard to think of another instance in which a public or private institution has made its personnel, present and past, as well as its documents and files (recent as well as earlier, most of them nonpublic, many still explicitly confidential) so freely accessible to a group of outsiders and then exercised virtually no control over the conclusions of the research and the resulting publication.

This is by no means to say that Bank people approved our work in all instances. Many objected to the drafts we presented and wrote dissenting commentaries that were enlightening. But there was no instance in which the Bank sought to overrule one of our interpretations.

From the beginning the Brookings Institution also afforded us a very large measure of autonomy. What it and the Bank regretted was the length of time the study consumed. Like our two principal sponsors, we started out expecting the entire exercise to occupy four or five years instead of the more than seven that it finally consumed, and there were extra costs, opportunity and otherwise, to seeing it through. But there was no good way to anticipate how long a thorough job would take. Although not disagreeing much with the conclusions of Edward Mason and Robert Asher's *The World Bank since Bretton Woods*, which was published in 1973, we needed to address various issues that had their roots at the Bank's inception. That meant twice as much time to cover. And in its second quarter century the Bank had become more complex: its emphases had changed, and its membership, clientele, and staff and the variety of its portfolio, as well as the span of its external relations, had grown exponentially. Moreover, a researcher needed to be careful. As we pursued the rare opportunity to look into the recesses of the institution, it often took several trial drafts to get our narrative straight.

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In one respect our exceptional access to internal Bank sources skewed the selection of subject matter and references. Historians of the Bank are bound to deal in some measure with the political, economic, geographic, and cultural contexts in which the institution has operated. Some senior Bank personnel urged more attention to these aspects, and some academic readers would have preferred further citation of the nonofficial studies that bear upon many facets of the present work. As members of the nonofficial research community ourselves, we sympathized with such views. Yet if one really respects these studies, it is clear that no history of the World Bank can pretend to be an adequate review of issues involving general development and development policy. Besides, our comparative advantage was to tell outsiders some of the content of internal Bank thinking and debate that they cannot readily obtain elsewhere.

Our research method has been commonplace: we conducted hundreds of interviews; read countless memoranda, minutes, reports, and other materials; traveled to developing countries to investigate Bank operations on site; and cross-referenced readers' seminars and comments. Bank staff members' support for the project was uneven. Some did not welcome intrusions on their work or thought the time was inappropriate for investigative reporting or simply lacked interest. Some forgot the research was under way. But these were far outnumbered by the many who were curious and responsive and volunteered their help.

We do have some complaints. Although we benefited greatly from the Bank's extensive and admirably managed archives, we suffered, as will other researchers, from the institution's lack of a clear policy about ownership of officers' personal files. Some senior executives of the Bank have, upon retirement, taken with them large quantities of papers that by rights, it seems to us, should remain with the institution. We were fortunate (and grateful) to gain access to some of these files. But the policy should be clarified. In addition, in its internal correspondence the Bank uses the classification "confidential" rather freely. This is understandable for facilitating operations, although greater restraint would be appropriate. What is less excusable is that there has been no regular regime for declassifying papers after a specified time has passed or some other marker has been reached.

In our work we have been counseled by two worthy committees. The first was a formal advisory committee formed at the start of the project that had three meetings and continued to comment on drafts and correspond with the authors. It consisted of Abdlatif Al-Hamad, Rodrigo Botero, Robert Cassen, William Diamond, Crauford Goodwin, Catherine Gwin, Gerald Helleiner, Takashi Hosomi, the late Philip Ndegwa, Widjojo Nitisastro, I. G. Patel, Helga Steeg, and John Williamson. The second ("guidance and closure") group was formed by Brookings to assist us in the final stages. It met quarterly during the later years of the project and consisted of William Diamond and Gerald Helleiner together with Jonas Haralz and Mervyn Weiner. We extend many thanks to the members of both committees.

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At Brookings, we are grateful to former president Bruce MacLaury and former Foreign Policy Studies director John Steinbruner. For editorial work, we thank the staff of the Brookings Institution Press, Sam Allen, and Princeton Editorial Associates, and for verification, Christopher Dall, Maya Dragicevic, Gary Gordon, and Alexander Ratz. The volumes were typeset and indexed by Princeton Editorial Associates. In and around the Bank we are indebted to Jochen Kraske, before and after he became Bank historian, and to the godfather of the project, William Diamond, who has never lost concerned interest in it. The regional and joint Bank-Fund libraries, the Offices of the Secretary and General Counsel, the Operations Evaluation Department, and the Bank's archives under Charles Ziegler are among the units to which we owe particular thanks.

We would especially like to thank the staff at the Executive Director's Library (now renamed the Board Resources Center) under Kenlee Ray: Michael Dompas, Andrea Nash, and Herve Tien-Sing Young. We are also most grateful to Charles McCaskill for his help in steering us through the maze of data on the Bank's operations and William Silverman on personnel data. Concetta DeNaro and William Katzenstein (both in the Planning and Budget Department) also assisted our access to data.

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Despite all the help, final responsibility for the outcome lies with the authors.

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Introduction

SOME SEE the twentieth century as roughly divided in the middle. They see the first half as an era of imperialism, economic fluctuation and collapse, and massive global violence; the second half as a period of less trauma. Although the latter has been replete with searing regional wars and harsh rivalry between the cold war's Western and Eastern blocs, broad-scale peace has been preserved. Vast nations have become independent, and, despite gross, sometimes worsening, inequalities, average real incomes, health, life spans, and levels of schooling have risen in much of the world, including many of the poor countries of Latin America, Asia, and Africa, collectively referred to as "the third world," during the decades of East-West rivalry. It is in this world that governments have tried to engineer development. Those intervening have included not only governments of the areas themselves but also external states acting through their own bilateral agencies and various multilateral institutions that governments have jointly sponsored and partly owned. The formation of such multilaterals surged after World War II, and many of those created, whether or not beleaguered, have endured.

The present work is about one of the postwar multilaterals that started quietly but that by the 1990s (whatever its future) had become one of the strongest of the group: the International Bank for Reconstruction and Development, commonly known as the World Bank. To facilitate the telling of the Bank's story, it is useful to identify the defining characteristics that would resonate during the Bank's first half century, shaping the experience throughout and in some instances changing it considerably.

2 INTRODUCTION

Abiding Traits of the First Multilateral Development Bank

The new IBRD, the first "Multilateral Development Bank," was born in 1944 and opened its doors in 1946. It was a *public sector* institution. Then as now public affairs tended to be more highlighted in social discourse than private affairs. But this public institution was peculiarly linked to the private sector and private resources. Moreover (a distinguishable point, we shall be saying), the public sector World Bank would always appreciate the efficiency of self-adjusting markets for much of society's detailed economic decisionmaking.

In a world dominated by nation-states, the new Bank was indeed a multilateral: it was owned and governed by national governments, and its clients were governments, but it was not formally or legally the creature of any one of them. Its owners did not like the thought of the Bank being "above" them. They were the principals, and it was their agent. But, like a variety of post—World War II constructs, including its sister, the International Monetary Fund, the Bank was an intergovernmental cooperative.

As to governance, the Bretton Woods multilaterals were rooted in political realism. The national representatives who drew up the Bank and the Fund, unlike their counterparts who formulated the United Nations General Assembly at San Francisco a year later, did not follow the juridical theory that all states, large and small, rich and poor, were equal. The founders vested predominant ownership and control in the economically more powerful countries, which, it appeared, would have been unwilling to delegate as much voice and as many resources to the Bretton Woods institutions had the case been otherwise.

Although the World Bank received less attention than its IMF "sister" at Bretton Woods, it became, for many, the world's premier economic multilateral. From the outset, the Bank's subject matter covered a broader span than that of the Fund, and over the decades, it expanded. Early on, events bumped the Bank aside from the first of its two mandates ("reconstruction") and prompted a determined commitment to development. Geographically speaking, this was a commitment across the totality of those economically developing countries that joined the Bank and was in contrast, for example, to the limited spatial terrain of the regional development banks that would begin to appear about 1960. At the same time, the Bank had characteristics that outstripped those of such a universal multilateral as the United Nations Development Program (UNDP). The Bank brought to its client countries not only intellectual products-ideas, information, institutional assistance, and policy influence—but also substantial flows of financial resources. Furthermore, the Bank could get such resources through channels that were fairly accessible politically. In the first place, with the wealthier-country governments contributing more in the way of national guarantees than direct finance, the Bank got most of the resources for its IBRD loans from private financial markets content to invest in IBRD bonds. Such operations inflicted minimal pain on taxpayers in the "donor"

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countries. In the second place, the Bank's concessional transfers—that is, the International Development Association (IDA) credits (begun in 1960) that *did* have to be funded out of member governments' national budgets—were, in the eyes of reluctant foreign-aid givers, still a safer bet than multilateral programs subject to one-flag, one-vote governance.

In the first fifty years, the Bank did not begin to escape the charge that the United States had not only the heaviest weight but, compared with the legalities, a disproportionate one in the governance of the institution. At the outset, especially after the second hegemon—the Soviet Union—withdrew itself from consideration for Bank membership, the weighting could not have been otherwise. As the world emerged from World War II, when the new practice of national income accounting was just beginning, the United States was estimated to be earning an extraordinary fraction of global real income, and its exports dominated trade. Against a very mixed history on the matter, the United States projected international economic leadership that inclined toward trade openness. Its currency was the only major one yet convertible, and to repair the breakdown of private capital flows in the 1930s, it initiated an era of government-arranged transfers. Substantial fractions of these transfers (as the 1960s approached) were meant to be concessional, for less creditworthy countries and less self-liquidating activities.

In the World Bank specifically, these circumstances created competing tensions about and involving the United States. From 1960 onward, American governments of whatever party and presidency would have a "burden-sharing" bias, seeking, when feasible, to scale down relative U.S. financial inputs to Bank activities, without diminishing the U.S. voice. Partisans of the United States sometimes argued that the country, as quasi boss of the Bank, was not a bad hegemon, as hegemons go. But the same partisans were unlikely to emphasize the windfall of low-cost influence that Bank dominance gave the United States, especially when the Bank's lead carried along other, including bilateral, donors with it. Within the Bank, however, the inside track that the United States enjoyed would be recognized as distinctive. Thus in 1985 a senior vice president would remark in a note to President A. W. Clausen, "The Bank is an influential element in the international system. U.S. influence in UN organizations is weak; the ADB [Asian Development Bank] is dominated by Japan; the IDB [Inter-American Development Bank] by the borrowers. The U.S. does not control the Bank but, as the largest shareholder and in association with other like-minded OECD [Organization for Economic Co-

1. Although representatives of the Soviet Union participated in the Bretton Woods Conference, the USSR failed to ratify the Articles of the Bank, or of the International Monetary Fund, arguing at a 1947 meeting of the UN General Assembly that the Bretton Woods institutions were merely "branches of Wall Street" and that the Bank was "subordinated to political purposes which make it one instrument of one great owner." Edward S. Mason and Robert E. Asher, *The World Bank since Bretton Woods* (Brookings, 1973), p. 29, quoting a 1948 article by Klaus Knorr.