

# The World Bank as a Political, Intellectual, and Financial Actor: It's First Half Century<sup>1</sup>

**El Banco Mundial como actor político, intelectual y financiero:  
su primer medio siglo**

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**Abstract:** This article analyzes the history of the World Bank during its first fifty years. It is argued that since its beginnings the Bank has used credit as a lever to expand its influence and institutionalize economic ideas, concepts of the world, and political prescriptions in client states. Behind its technical façade, the Bank has always acted, albeit in different forms, in the interface of the political, economic, and intellectual fields at the international level, due to its singular condition as a lender, political actor, and inductor of ideas and prescriptions about what to do in questions of capitalist development, from an Anglo-Saxon perspective. Based on a wide and varied international literature and the sources of the institution itself, the text approaches the theme taking into account the US policy towards the institution, changes in international economic policy, and the principal decisions of the Bank's board.

**Resumen:** El artículo analiza la historia del Banco Mundial durante sus primeros cincuenta años. Se argumenta que, desde el principio, el Banco utiliza el crédito como palanca para ampliar su influencia e institucionalizar ideas económicas, visiones del mundo y prescripciones de política en sus clientes. Detrás de su aspecto técnico, el Banco siempre ha funcionado, aunque de diferentes formas, en la intersección de los campos político, económico e intelectual a escala internacional, en función de su condición singular de prestamista, actor político y promotor de ideas y recetas acerca de lo que se debe hacer en cuestiones de desarrollo capitalista, en clave anglosajona. Basado en una amplia y diversa literatura y fuentes de la institución internacional, el texto aborda la cuestión teniendo en cuenta la política de Estados Unidos hacia la institución, los cambios en la economía política y la gestión de decisiones internacionales claves de la entidad.

**Keywords:** World Bank, US foreign policy, economic liberalism, multilateralism, international development aid,

**Palabras clave:** Banco Mundial, política exterior de los EE.UU., liberalismo económico, multilateralismo, ayuda internacional al desarrollo.

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## 1. Introduction

Growing in size and performing more functions than ever since its foundation, the World Bank (WB)<sup>3</sup> has become an immense and complex organization, very different from what was imagined in the Bretton Woods Conference in 1944. In 2016, it has approximately twelve thousand employees and has made more than US\$ 800 billion in loans, granted through financial counterparts from client states of a much greater magnitude. The gradual increase of its portfolio was accompanied by the diversification of the areas in which it has operated, which in addition to infrastructure and energy, also came to involve economic policy, education, health, housing, environment, public administration, and post-conflict national reconstruction. In practice, all sectors and activities linked to development have come to be part of its portfolio of actions.

The international literature about the theme is vast and profoundly heterogeneous. It is worth making a brief comment about this. A very significant part of it is dominated by economists and tends to emphasize the financial actions of the organization, which is fundamental, but which frequently belittles or ignores other relevant dimensions. On the other hand, many of these studies are limited to look at the Bank's actions from a sectorial perspective (infrastructure, education, health, economic policy, etc.), leaving aside the intersectorial connections of its actions and the more general history of the organization. Looking at them from another angle, it is possible to differentiate the papers which examine the institution through the foreign policy of its principal member states, undermining the analysis of the bureaucratic organization and its conditioners, from those which treat the Bank as a bureaucratic complex, using the toolbox of Sociology of Organizations, ignoring the relationship of the entity with disputes in the inter-state system. In turn, from another focus, the studies restricted to a disciplinary perspective — the large majority — can be distinguished from those which adopt a transdisciplinary approach. Finally, but no less important, a considerable part of the literature has a normative tone,

<sup>3</sup> The World Bank is part of the World Bank Group (WBG), which consists of seven organizations with different mandates, political gravitation, administrative structures, and decision making bodies. These are: the International Bank for Reconstruction and Development (IBRD), created along with the International Monetary Fund (IMF) in the Bretton Woods Conference in 1944; the International Development Association (IDA), created in 1960; the International Finance Corporation (IFC), since 1956; the International Centre for Settlement of Investment Disputes (ICSID), since 1966; the Multilateral Investment Guarantee Agency (MIGA), set up in 1988; the *Economic Development Institute* (EDI), since 1955 and renamed the World Bank Institute in 2000; and the Inspection Panel, created in 1993. The World Bank is only constituted by the IBRD and the IDA, but has close ties with the WBG group, with the partial exception of the Inspection Panel. IBRD grants loans to low and middle income countries, raising resources in capital markets and loaning them to its clients in conditions close to the international financial market. Its operations are secured by general capital which is contributed by the member states in unequal proportions, and can only be increased after negotiations between them. The IDA makes long term loans with low interest rates to poor countries. It has three sources of funding: IBRD contributions, interest payments on the loans it makes, and, most importantly, voluntary contributions negotiated every three years with donor countries. While the IBRD makes a profit and is financially grounded in the market, IDA depends on the voluntary contribution of donor states to survive. The amount contributed by each donor leads to intense periodical negotiations with the rest. Voting power in the World Bank is unequal and proportional to the capital contributed by each member state, an amount that is politically negotiated among the states. All client states are also members of the Bank, but not every member is a client, as is the case of the richest countries. The US is the only shareholder with veto power over statutory changes. In an informal agreement in force since 1944, the president of the World Bank has always been a US citizen appointed by his government.

with little critical distance in relation to the object, although frequently these papers look as the best technical research.

The approach adopted here differs from a significant part of the literature and dialogues with authors who seek to understand, in an integrated manner, the international economic policy in which the institution is inserted and the internal dynamics of the organization<sup>4</sup>. Strictly speaking, none of the main theoretical approaches of international relations can sufficiently explain the nature and dynamics of the World Bank — the largest, oldest, most complex, and important of the Multilateral Development Banks (MDBs) — and its profoundly unequal relations with national states. It does not exist a convincing theoretical model. It is necessary to combine diverse analytical contributions, taking into account the structures of power which mold international economy, the dialectic between external and internal factors which configure the foreign policy of national states, relations between state and non-state actors at a national and international scale, the interaction between national and international policies and specialized knowledge, and finally, the influence of ideas, conventions, and norms (going beyond mere political or economic interests) on which the international development aid industry was based.

To contribute to the global assessment of this institution, this article analyzes its first fifty years. Its main argument is that behind its technical façade, the WB has never been a mere financial agent. Rather, the institution has always worked, albeit in different forms, in the interface of the political, economic, and intellectual fields at the international level, due to its singular condition of lender, policy formulator, and inducer of ideas and prescriptions for governments in relation to development, from an Anglo-Saxon perspective.

Moreover, it is important to highlight that the WB's relationship with national governments should not be conceived as a mere external imposition. The different pressure mechanisms used by the WB depending on the case and the circumstances have operated in the middle of an increasing complex of relations involving national and international public, private, philanthropic, and business agents. In turn, these agents, in distinct forms and with differentiated means, have supported, adapted, negotiated, and spread the ideas and prescriptions of the institution. Frequently, the WB accords have been used by political groups to consolidate positions in the correlation of forces institutionalized in the state. Thus, the effectiveness of the WB's actions was continuous and continues to be dependent on the construction of points of support, negotiation, and diffusion inside and outside national spaces.

Based on the institution's sources and specialized literature, this paper analyzes the trajectory of the WB in a manner linked to the international economic policy in which it operates. The text is divided into six sections. Initially, the profile of the Bank's activities until 1960 will be examined, emphasizing its singular trajectory in relation to other multilateral organizations constructed in the period. Next, it discusses the reasons for the creation of the International Development Association in 1960 and its implications. In the following section, it examines the continuities and innovations of the WB's actions between 1963 and 1968. After this, it outlines the central lines of McNamara's administration, during which the institution reached a new international level. Then, it discusses the

<sup>4</sup> As has been shown by, albeit with distinct approaches, Gwin (1997), Dezalay and Garth (2002), Goldman (2005), Woods (2006), Craig and Porter (2006), Williams (2008), Wade (1996, 2002, and 2013), and Babb (2009).

dynamics of the structural adjustment policies which gave the tone to the WB's conduct during the 1980s. Finally, it analyses the institution's principal actions from the end of the Cold War until its fiftieth anniversary, a lapse of time which involved numerous criticisms and uncertainties about the future of the organization.

## 2. Bretton Woods and the beginning of operations

In July 1944, after two years of negotiations reserved to the US and Great Britain, the Roosevelt administration held the Monetary and Financial Conference of the United Nations, in the city of Bretton Woods (BW). In the presence of 44 allied delegations and one neutral country (Argentina), the principal negotiator of the British Treasury, John Maynard Keynes, recognized that the draft document for the creation of an international bank was due "primarily to the initiative and ability of the United States Treasury" (*apud* Mason and Asher, 1973: 13).

The result of the conference materialized US hegemony in the political and economic reorganization of the post-war world. Product of a drastic change in the international structure of power, it institutionalized a new monetary order based on the dollar. The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) -multilateral financial organizations of a new type- were created at the same time. Their institutional frameworks expressed and reproduced the asymmetry of power configured in the international system (Eichengreen, 1996; Gowan, 1999; Panitch and Gindin, 2013). On the other hand, the provisions of WB agreements in favor of capitals' control reflected the victory of the "embedded liberals" over Wall Street bankers (Block, 1989: 89-90; Helleiner, 1994: 50).

The primordial mission of the IBRD was to provide guarantees and loans for the reconstruction of member-states affected by war. Development appeared only laterally and in a badly defined way. In its statutes and operational orientations, the Bank consecrated American visions of how the world economy should be organized (Gwin, 1997: 198-200). This included the decision that the institution would not make direct loans to private companies.

However, two years later, following the beginning of the Cold War in March 1947, the political landscape altered radically. Based on the Truman Doctrine, the American government began to offer political, economic, and military aid to any government supposedly under internal or external communist threat. To compete with the USSR and administer the world economy under its umbrella, the US created strong junior partners, through ample economic aid to strategic allies, such as Western Europe, Japan, Canada and Australia (Kofas, 2005). The principal instrument of this policy was bilateral aid. In the wake of the Marshall Plan, the US created a wide institutional infrastructure for external financial, military, technical, and scientific assistance (Robin, 2001). This was fundamental for spreading American institutions abroad in the name of liberty and democracy, thus, politically administering the non-communist world, and countering communism within its own frontiers.

At the same time, the US government sought to instrumentalize the multilateral financial institutions created in Bretton Woods in accordance with its foreign policy. IBRD — renamed as the World Bank from the final 1950s — was one of these. Dwarfed against the financial magnitude of the Marshall Plan, the institution only played a small role in

reconstruction.<sup>5</sup> Loans for 'development' of the so-called Third World only became the flagship of its actions at the end of the 1950s.

The Bank granted loans for programs and projects. In relation to the former, the operations were of a greater financial volume and had the general objective of financing imports or alleviating imbalances in the balance of payments, and were authorized in 'special' circumstances for clients considered more solvent and politically strategic for the US, such as Western Europe and Australia. In the latter case, the loans were lower and used for the financing of productive projects, authorized for clients considered less solvent — most often, middle income countries (Kapur et al., 1997: 129; Kofas, 2005: 21; Kirk, 2010: 7).

Furthermore, the emphasis on the financing of 'productive' projects was adapted to the preventive veto of private US banks over the financial competition which the IBRD could face (Mason and Asher, 1973: 24; Kolko, 1990: 257). This was because the institution adopted a credit policy based on commercial profitability towards those interested in purchasing its bonds. IBRD's loans had to create profit and the manner considered most suitable for this was to fund infrastructure which could demonstrate where and how the money was used, which in turn was used as an element of propaganda with private investors so that they would purchase more of the Bank's bonds. It is true that when political questions were in play, this obligation did not prevent the Bank from camouflaging credit to alleviate crises in balances of payments as if they were loans for specific projects (Kapur et al., 1997: 123). However, the general rule prescribed loans for productive projects. Similarly, before 1962 the IBRD had not authorized any loans for health or education programs. Projects eligible for funding had to be profitable and expenditure had to be predominantly in US dollars, and projects for 'social' purposes did not meet these requirements (Gavin and Rodrik, 1995: 333; Alacevich, 2009).

In addition, the trust of Wall Street's investors was increased by the fact that IBRD loans stipulated that funds had to be spent on the purchase of goods and services from companies based in the richest countries, which in turn contributed to maintain a high level of employment in the North. In this way, the Bank fulfilled the role of introducing or strengthening the presence of American and European banks and companies in the Third World (Goldman, 2005: 30).

The IBRD began considering its projects as vehicles for the dissemination of lucrative business and prescriptions about development (Kapur et al., 1997: 125-126). In general, this materialized in the creation of specific agencies for administering projects, which often functioned as enclaves within public administration. Also common was the linking of the release of funds to the 'good behavior' of clients in questions of economic policy — for example, the non-existence of hostile attitudes towards foreign capital, currency devaluation, and balanced budgets (Ascher, 1990: 117).

During its initial years, the IBRD distinguished itself both from American bilateral economic aid agencies connected to the Point IV Program<sup>6</sup>, as from other multilateral

<sup>5</sup> Between 1947 and 1954, IBRD lent for the purposes of reconstruction only US\$ 800 million, while the Marshall Plan granted sixteen countries US\$ 13.5 billion, of which more than 90 per cent was in highly facilitated conditions.

<sup>6</sup> Created in 1949, Point IV had the aim of providing technical and financial assistance to countries considered underdeveloped in various areas of economic, politico-administrative, educational, cultural, and scientific activity. Emphasizing the connection between the US security interests and the Third World's development, the program marked the beginning of more substantial expenditure in the field of exter-

organizations (such as the Food and Agriculture Organization of the United Nations, the United Nations for Educational, Scientific and Cultural Organization, or the World Health Organization) for whom agriculture, education, and health, were strategic sectors. By adopting a conservative profile, based on commercial profitability and focusing on infrastructure projects, there were no subsidies in its financial operations, nor credit for sectors not considered profitable (Kapur et al., 1997: 188). This did not prevent the institution, under the advice of the State Department or the Department of the Treasury, from granting or denying loans to clients for political reasons, nor from imposing varying conditions for the authorization of loans in accordance with political criteria (see Gardner, 1994; Gwin, 1997; Kofas, 2005 and 2002). However, Washington's preference for conducting visibly political operations through bilateral channels than through multilateral ones permitted the IBRD to consolidate itself as a financial actor linked to the US capital's market -symbolized by Wall Street-, and through its technical appearance, presenting itself as being at a certain distance from the Cold War.

The profile of the Bank's portfolio found some intellectual support in development theories in vogue in Anglo-Saxon academia. Based on an ethnocentric vision which extrapolated the historic experience of industrialized capitalist countries to the so-called Third World, these theories conceived development as growth of GDP and the direct function of private investment and investment in infrastructure (Finnemore, 1997: 207; Escobar, 1996). The belief in the redemptive power of technology and science was widely shared and was the foundation of the most widely diffused models of growth and concepts, such as *big push* and *take-off*, which served to harmonize and adapt the economic doctrine to the preaching of Washington, so that Third World countries would absorb more financial aid and foreign capital (Kapur et al., 1997: 146-148; Lancaster, 2007: 66-67; Latham, 2000: 53-57).

### 3. The multilateralization of the aid industry and the International Development Association (IDA)

The creation of the IDA was decisive for the ascendant trajectory of the WB. To understand it, a series of international political and economic factors which exercised pressure on the IBRD in the second half of the 1950s, have to be considered.

The first was related to the political tensions of the Cold War, heightened by the independence processes of European colonies in Africa and Asia — and the possibility that nationalism and socialism would eventually converge in post-colonial states — and the Cuban Revolution, seen by Washington as a case of metastasis of communism in Latin America. In parallel, the movement of non-aligned countries vehemently condemned colonialism and demanded the 'development' of their countries, giving greater visibility to the increasing North-South tension about inequality of wealth and power among states and within multilateral organizations.

A second factor consisted in the increasing questioning of the role of the IBRD as a development funding agency. To gain the confidence of Wall Street, the Bank had moved away from poor countries, conceived as insolvent. In practice, this signified that the vast

nal aid to non-European countries. The connection between the Bank and Point IV can be found in the 1949 IBRD Annual Report.

majority of post-colonial states did not have access to the main multilateral source of credit, and thus they also found difficulties in getting loans from private sources. On the other hand, various middle income countries — the greatest IBRD's clients after India — complained that loan conditions were burdensome and criticized the absence for them of credit on concessionary conditions, such as the Marshall Plan (Oliver, 1995: 129; Gwin, 1997: 206; Kapur, 1997: 1.126; Lancaster, 2007: 66).

Finally, the third factor consisted in the strengthening of the campaign for the approval of the Special United Nations Fund for Economic Development (SUNFED). Led by India, Chile and Yugoslavia, its aim was to create a UN agency specialized in providing financial and technical assistance in concessionary terms, which would operate under the principle of one vote per state. Proposed in 1949, the project was approved in 1952 by the UN General Assembly, despite the opposition of the US government, and in 1958 SUNFED was allowed to finance pre-investment work (Mason and Asher, 1973: 382-386).

Although the Eisenhower administration, like its predecessor, was opposed to concessionary financing for the Third World — especially if this was done through a UN agency —, officers in Washington were concerned with the escalation of the Cold War and Soviet attempts to exploit the emerging tensions between North and South within the UN (Gwin, 1997: 205-206). The response arrived in the middle of 1959, when the Treasury proposed the creation of the International Development Association (IDA). Since then, the expression World Bank has designated the junction of the IBRD and the IDA.

Founded in 1960, the IDA was the opposite of SUNFED. Linked to the IBRD, it was governed by the same unequal system of distribution of votes, far from the UN's decision mechanisms. Furthermore, its activities were funded by periodic rounds of donations (replenishments) arising out of the game of interests between a few donor states. Its loans, offered in highly advantageous conditions, relieved the pressure on the IBRD to make loans to poor countries (Kapur et al., 1997: 170). As predicted, India and Pakistan — two strategic countries for the US in Asia — became its biggest clients.

With the creation of the IDA, the US government and its principal European allies not only managed to undermine SUNFED, but to count on a further foreign aid instrument under their control, in a period of heightening tensions with the Third World. At the same time, the connection between the IDA and the IBRD was important to avoid its direct association with US foreign policy<sup>7</sup>. Furthermore, the creation of the IDA provided the US with an additional means of sharing the financial load of development aid with other capitalist powers, in the wake of the wider process of multilateral foreign aid which accompanied decolonization. In the US government's view, economic aid needed to be increased more than ever, in order to stop gravitation towards the Soviets and to prevent the emergence of governments which, although not aligned to the USSR, could assume a hostile position to the US (Gwin, 1997: 207-208; Dezalay and Garth, 2002). The increasing emphasis on long term development converted foreign aid from a temporary expedient aimed at European reconstruction into a permanent mechanism of US diplomacy.

<sup>7</sup> US bilateral aid was dispersed among various agencies and subject to continual organizational changes. In general, it was largely economic between 1946 and 1951, military between 1952 and 1956, and again increasingly economic between 1957 and 1968 (see Kapur et al., 1997: 150-151). Most notable was the United States Agency for International Development (USAID), created in 1961. This was the beginning of a country programming process (in contrast with *ad hoc* funding), in which a set of necessities were considered in decisions about how, where, and what to fund.

To understand the creation of the IDA it is important to take into account that in the 1950s, and even more in the following decade, American and European multinationals were setting up in the Third World, especially in countries such as India, Brazil, Mexico, and Indonesia. Large underdeveloped countries were the first targets for the creation of an industrial sector controlled by foreign capital. In the context of the recovery of the European and Japanese economies, for the US the model of asymmetrical integration had to evolve to a new phase of dependent capitalism through the multilateralization of foreign aid and investment (Kofas, 2005). Playing a more active role in this process were the US' principal subordinate partners. After launching the Alliance for Progress, the US urged them to provide loans in Eurodollars to the Third World and to share the burden of development assistance, which gave the European powers and Japan the opportunity to capture a greater share of world trade and to obtain more leverage over the economic policies of states within their respective zones of influence.

The impulse for the multilateralization of foreign aid resulted in the creation of various bilateral and multilateral organizations during this period. The wave began in 1957-1958 with the creation of the US Development Loan Fund, the European Development Fund, the United Nations Economic Commission for Africa and the first international assistance consortium for India under the coordination of the IBRD (Aid-India). In 1960 the IDA and the Canadian International Development Association emerged; in 1961 the second international aid consortium (for Pakistan), the Ministry of Cooperation in France and Germany, the Swiss cooperation service, Japan's Overseas Economic Cooperation Fund, and the Inter-American Committee of the Alliance for Progress were established; in 1962 the bilateral aid organizations of Belgium, Denmark, and Norway were founded; in 1964 the African Development Bank, and in 1966 the Asian Development Bank emerged.

It is worth making a comment here about the aid consortia. The first one was aimed at India and served as a pilot experience. India was not a priority of US foreign policy in 1947-1948. However, this situation changed completely in a decade, to the extent that Washington came to conceive it as part of a symbolic race for economic development with communist China (Kirk, 2010: 10-11). One of the instruments most used by American diplomacy was food aid. The first US loan to India was made in 1951 to purchase two million tons of wheat. Following Public Law 480 in 1956, India began to purchase foodstuffs in rupees in concessionary terms. Imports of American wheat shot up. In 1958, with a strong balance of payments crisis, India became the first country to receive a loan from an international consortium coordinated by the IBRD which included the US, Western Europe, Japan, and Australia as donors. Strictly speaking, the US government was the most powerful force in that arrangement. The Bank's actions in such a sensitive political area followed the US advice and were only possible due to its support. In exchange for the aid, India began to import food on a large scale from the US, via PL 480, until the end of the 1960s. Moreover, it was also obliged to give incentives to foreign capital and to implement trade and industrial liberalization measures (Payer, 1974: 170-183; Oliver, 1995: 125-151; Gwin, 1997: 207).

The financial dependency achieved by the consortium in the largest Third World country, which sought to use East-West competition in its favor, encouraged donors to replicate the instrument. Two years later, a similar type of consortium was created for Pakistan, in order to counterbalance India politically and economically. Following this, the same model was used for the rivals Greece and Turkey, also for geo-political and economic considerations in relation to controversies about the independence of Cyprus and the deployment of nuclear weapons in both countries by the US (Kofas, 2005: 30-31).

After 1961, with the creation of the Organization for Economic Cooperation and Development (OECD) and the structuring of the Development Assistance Committee (DAC), international financial aid consortia multiplied, becoming the standard instrument for subordinated economic integration between the US, other OECD countries, and the developing world.

#### **4. The Woods administration: A transitional phase (1963-68)**

At the beginning of the 1960s, the WB found itself in a very solid financial condition. However, due to the accelerated indebtedness of the large majority of peripheral countries, especially of the middle income ones, the IBRD found itself with a lack of solvent-considered clients (Mason and Asher, 1973: 221, note 39). This was a serious problem not only because it was an organization based on loans, but also due to political and image reasons (Ayres, 1983: 3; Kapur et al., 1997: 177). After all, the UN had declared the 1960s to be the 'decade of development' and the number of member states of the WB kept increasing thanks to the IDA, as well as the number of bilateral and multilateral institutions capable of providing credit.

It was in this scenario that George Woods, former president of the First Bank Boston, became president of the WB. His administration responded to this context by relaxing solvency criteria and the valorization of other criteria to authorize loans, such as growth potential and the type of economic policy implemented. It also began to channel loans in abundance to states whose dictatorial governments were US allies — Nicaragua, Brazil (after the 1964 coup), Spain, Portugal, Indonesia (under Suharto), Zaire, and South Africa (Payer, 1974; Kofas, 2005).

Finally, the WB's loan portfolio increased by about 10 percent between 1963 and 1968, the administrative budget more than tripled, and the institution commenced operations in no less than fifty new countries, half of which were in Sub-Saharan Africa (Kapur et al., 1997: 187-188). Furthermore, from the sector point of view, loans for agriculture increased considerably and credit was made available for education, water supply, and basic sanitation.

Until the beginning of the 1960s, the WB program for agriculture had been modest. The increase of loans for the sector was propelled by the increased — and decisive — involvement of the institution with the 'green revolution,' i.e., the development of hybrid seeds (of wheat, and afterwards, rice, and corn) whose high productivity depended on the optimal conditions of irrigation and the intensive use of pesticides, chemical fertilizers, and agricultural machines produced by American and European companies. In association with the Rockefeller and Ford Foundations, and afterwards with the USAID, the WB not only financed agricultural projects which demanded this new technological package, but also sponsored the creation of agricultural research in the Third World during the 1960s.

The production of new seeds depended on a sophisticated and expensive system of irrigation and the use of industrial raw materials whose maximum efficiency required a certain scale, which benefited most rich and better educated producers holding the best lands (Lappé and Collins, 1982). Access to agricultural credit and technical assistance services became indispensable. To make this feasible, national and foreign public funds came to be channeled, strengthening agrarian elites and agro-chemical companies (Payer, 1982). While the US and Western European governments subsidized their farmers,

they exercised pressure on the WB to propel their green revolution in underdeveloped countries through the purchase of machinery and raw material produced in the central countries. This contributed to the increase of production but also of foreign debt and food dependency (Kofas, 2005; Shiva, 1991).

Notwithstanding sectorial diversification and the expansion of WB activities towards poor countries, the predominant vision within the institution about the general benefits resulting from economic growth did not change. At the beginning of the 1960s, the creed of development was at its high, fed by the expansive post-war which included not only Western Europe and Japan, but also peripheral countries, albeit in an asymmetrical manner. Belief in progress via science and technology seemed unassailable, supporting a concept of development as investment in physical infrastructure.

At the end of the Woods administration, the WB had granted more loans than in the previous 16 years. Conservative criteria for granting credit continued to be the rule, but there was a certain operational relaxation. In addition to increasing disbursements for agriculture, the WB timidly commenced operations in the educational and urban areas.

The first repositioning of IDA funds occurred during the Kennedy administration in a context of the expansion of external foreign aid. However, the negotiations for the second repositioning, which began in 1966, were more complicated (Kapur et al., 1997: 221). At that time the US government took measures to control inflation, reduce the evasion of dollars, and prevent or minimize the devaluation of its currency. Furthermore, to finance the Vietnam War and the arms race, the government was obliged to cut domestic programs and increase taxes. In the US, 'aid fatigue' was growing, i.e., the fall in political support, especially in Congress, for external aid, increasingly considered an expensive and inefficient instrument to promote US (political and economic) interests in the rest of the world.

To support the WB's financial expansion, Woods proposed a repositioning of 1 billion dollars, with which the US government agreed (Oliver, 1995: 230). Woods left his position at the beginning of 1968, leaving his successor, Robert McNamara — former US Secretary of Defense —, to conclude the process. As Gwin showed (1997: 209), the proposal met resistance in the Congress and the disputes dragged on, provoking a delay in the approval of funds and forcing other donors to provide funds to avoid a temporary suspension of IDA credit. After the second reposition, there emerged a pattern resulting from the pressures of both the — increasingly active — Legislature, and the Executive, in which in each round of negotiations the US demanded concessions to authorize its contribution to the IDA. While the IBRD increasingly raised funds in capital markets outside the US, becoming less dependent on Wall Street, the IDA was subjected to the vicissitudes of the political dispute in Washington between the US and the other donors.

Moreover, this pattern intensified in the following decades and would be used by the US to paradoxically increase its own influence in the WB. How? According to Babb (2009: 13-16), one of the most important sources of US influence in the institution since then has been the reluctance of the US to support it. In the negotiations for the repositioning of IDA funds, the US made more criticism and demands and displayed less commitment to the accords, as well as being the only important member which did not contribute the promising funding and was repeatedly in arrears. In Congress there is strong opposition to any form of multilateralism and governments learned to use the uncertainty of congressional approval to bargain with other states and with the top administration of the Bank; in other words, internal constraints are used to increase its external leverage.

## 5. The Mc Namara's development diplomacy (1968-81)

McNamara's arrival to the WB presidency profoundly marked its history. Evoking the connection between security and development, McNamara stated that economic backwardness and the contradictions of modernization opened the doors to ideological radicals. For that reason, "without internal development, at least to a minimum level, order and stability are impossible" (1968: 173).

This approach was related to Washington's recognition of the failure of its predominantly military approach followed in Vietnam (Kapur et al., 1997: 220). This explains the US government's emphasis on the increase of multilateral aid over bilateral aid, since according to Washington, the WB and the other MDBs could raise funds and make loans to peripheral countries geopolitically relevant to the US, without attracting direct criticism of its foreign policy and without the economic burden of bilateral programs.

Assuming the position, McNamara (1973: 4-5) stated that the balance of the 'decade of development' was "disappointing" because income inequality among states had increased and the majority of the population of the planet lived in extreme conditions, despite the increase of rates of economic growth in large parts of the world. All this implied the recognition that the benefits of growth had not flowed downwards, as 'trickle-down' doctrine preached. According to McNamara, it was no longer valid to suppose that growth would necessarily lead to the reduction of poverty<sup>8</sup>. It was necessary to distinguish them conceptually and to approach them in a separate and direct manner. On the other hand, McNamara denied that the reduction of poverty would occur at the cost of growth -as the immense majority of economists (inside and outside the WB) at that time stated-, insisting on its centrality (Kapur et al., 1997: 217).

The slogan of the 'assault on poverty' was at the core of the new administration's discourse. In its name, the McNamara administration more than doubled the loan portfolio. There was a considerable expansion of loans to the agricultural sector and, to a lesser degree, for social 'purposes,' such as education, basic sanitation, nutrition, urban housing, and family planning. Although disbursements for Asia were intensified, operations in Africa and Latin America proportionally increased more.

McNamara established annual loan targets for each country and defined that each employee's professional efficiency would be assessed according to the volume of funds involved in projects for which they were responsible. Thus, the imperative of 'moving the money' at any cost became one of the most striking marks of the organizational culture of the WB.

As part of this expansive movement with a growing emphasis on the rural sector, the WB joined with the Ford and Rockefeller Foundations to create an international network of agricultural research centers to propel the diffusion of technological packages of the green revolution around the world. This initiative culminated in the creation of the Consultative Group on International Agricultural Research (CGIAR) in 1971 (Kapur et al., 1997: 399-401). The network of institutions linked to the CGIAR rapidly expanded and had impacts in the spheres of science, aid industry, business universe, stimulating and amalgamating interests and concepts of the world in relation to the organization of agricultural production and human alimentation. The exchanges promoted by the CGIAR

<sup>8</sup>At the end of the 1950s and even more intensely during the following decade, economists such as Celso Furtado and Albert Hirschman shared this idea.

channeled dollars towards national research institutes through partnerships with American universities, playing a crucial role in the Americanization of the agro-food systems of the client states (Goldman, 2005: 86-87).

The expansion of financial activities during the first five year period of the McNamara administration had to face the growing vigilance of the US Congress over foreign aid. Until the 1970s, the Congress was limited to a merely passive role (Schoultz, 1982; Gwin, 1997: 211-212). However, with the Vietnam War and the end of the bipartite consensus about foreign policy, and in a period in which the economy faced serious domestic problems, congressional criticism of the usefulness of bilateral aid increased. To overcome the increase of the interference of Congress in bilateral aid, the Executive began to give greater weight, in relative terms, to multilateral assistance, something more difficult to be supervised and with greater technical appearance (Babb, 2009: 56).

However, as the requests for funds for MDBs rapidly increased, the Congress also turned its attention to them. In the case of the WB, various parliamentarians and interest groups began to demand information and called for the release of funds, pluralizing the relations of the WB with the US social, political, and economic actors. Along with the increased control from the part of the Congress over bilateral aid, it gradually emerged an extensive body of legislation about the relationship between the US and the WB (Gwin, 1997: 220). Each round of negotiations for the repositioning of funds for the IDA witnessed pressure and bargaining between the US and the other donors at the international sphere, and between the Treasury, the State Department, and Congress at the domestic sphere.

The financial expansion of the WB was accompanied by investment in economic research. Until the beginning of the 1970s, this activity had been inexpressive and under-financed, with little or no influence at the operational sphere (Mason and Asher, 1973: 467). However, the nomination of Hollis Chenery for the new position of chief economist in May 1970 marked the beginning of a decisive turn.

Placed at the center of the WB research was the question of poverty. Until then, poverty had been practically ignored as a theoretical question in the economic literature, appearing in a vague and pejorative manner, frequently associated with benefits and welfarism (Finnemore, 1997: 207; Kapur et al., 1997: 247). The word itself was not part of the current vocabulary of the Bank's staff.

For Washington and McNamara, the reduction of poverty in the Third World was linked to the fight against communism and to the improvement of US security, conceived as a condition for the "free world's" security. Besides, during the 1970s, the emergence of nationalism in peripheral countries tormented policymakers in the international aid industry. Among organizations such as CEPAL and UNCTAD it was thought that the solution for the dilemmas of development (concentration of income, pauperization, and inequality between states) involved some redistribution of resources from North to South. The slogan of the 'fight against poverty' actually configured a limited and conservative response to a myriad of social complaints.

With direct roots in the injunctions of the Cold War and grafted on to the Bank by Washington, the 'assault on poverty,' however, lacked two important elements in those years: a theory, and a means that could be replicated and assessed. In effect, the WB lacked a response which could give coherence, both internally and externally, to the projects which the institution had been implementing in agriculture, education, and urban housing, and also did not have an instrument which could allow the measurement of results. Both

emerged in 1973-74 with the definition of 'absolute rural poverty' as the principal target of the new projects of 'integrated rural development,' and with the publication of a book organized by Chenery (1974). Thus, the 'poverty-oriented' approach was born.

In addition to the macro-politics of the Cold War and the need -according to the policymakers in Washington- to prevent or reduce the social activism of peasants in the Third World (see Huntington, 1968), the construction of this focus would have been unthinkable without the questioning of the 'trickledown effect' within mainstream economics (Finnemore, 1997: 208). Various forms of data supported this skepticism, linked to the accelerated demographic increase, the worsened distribution of income, and the limited growth of industrial employment. Some of the models in vogue led to the conclusion that growth and inequality were inseparable, and despite the idea that inequality would fall 'afterwards' as development occurred, debate about inequality increased to such an extent that it undermined poverty reduction (Kanbur and Vines, 2000: 88-92).

Something else that also has to be taken into is the change in US foreign aid policy. Academic criticism was added to that raised in Congress about the conducting of foreign policy centered on the Vietnam War. This resulted in the approval in 1973 of the Foreign Assistance Act (Ayles, 1983: 9; Babb, 2009: 51). Based on the idea of 'basic needs,' the new directive focused on the reduction of 'extreme poverty' through the concession of credit to increase the productivity of 'small farmers.' These directives had an impact in the search during the McNamara administration for greater coherence between its pro-poor rhetoric and the effectiveness of projects with this purpose.

Internally, a decisive step for the construction of focus was the definition of 'absolute poverty,' as a unit of analysis and operational criteria (Kapur et al., 1997: 239-240). This innovation gave operational support to the identification of 'foci of poverty' in the rural environment, to be 'attacked' with 'integrated rural development projects' which would fund the acquisition and application of technological packages for poor peasants. In other words, this involved implementing a type of 'small green revolution' among parts of the peasantry (Feder, 1976) in order to increase their economic productivity, expand capitalist relations in the rural environment, reduce poverty, instill the sense of private property, and engender an environment that was ideologically refractory to 'radical' ideologies. The concentration of land ownership was taken as something which the projects would have to accommodate (Ayles, 1983: 104).

Published in the following year, *Redistribution with Growth* gave the WB a theoretical core which allowed it to sell its new product more effectively, by instituting absolute poverty and target groups as legitimate operational categories for public policies. Strictly speaking, the book prescribed an incremental type of distributive strategy, to the extent that it was limited to distributing part of economic growth (new assets and revenues) through projects and programs funded by taxation and external debt. In principle, these actions would stimulate the increase of the 'productivity of the poorest,' in such a way that through atomized entrance into the market, their income would increase, while the stock of wealth would remain untouchable.

The thesis that overcoming rural poverty would occur through the increase in the 'productivity of the poor' assumed that only those who were not involved in productive and profitable activities lived in poverty. Poverty was conceived as an intelligible phenomenon in itself and as the product of exclusion from economic development, and not as one of its results. Put in this way, the 'struggle against poverty' seemed self-explanatory and legitimate in itself.

In wider terms, the book helped to construct the foundations of a ‘science of poverty’ — a *povertology* —, based on the centrality of poverty as a category of analysis and the subject of development assistance. The growing engagement of the WB in the production, compilation, and dissemination of economic indicators contributed to affirm and amalgamate ideas and practices about poverty as measurable and quantifiable phenomena. At the same time, the WB connected with other multilateral agencies and national institutions, spreading its expertise and, thereby, gradually defining the legitimate terms of the international debate (Goldman, 2005: 77-81; Finnemore, 1997: 208).

The McNamara administration was also engaged in the search for an instrument replicable in the urban environment. The first WB projects in 1972 continued the focus on sites and services, whose objective was to balance maximum cost recovery with minimum subsidy. The basic procedure consisted of limiting subsidies for land purchases and the construction of basic infrastructure to the minimum possible, leaving the new owners responsible for constructing houses and a large part of the costs. This focus provided a means to exploit unpaid labor, lowering the reproduction costs of the labor force and feeding social conformism through access to property. Following this, there emerged the focus on slum upgrading, which demanded the minimum physical demolition and resettlement of people, with the advantage of fully serving the canonization of the slum habit with the discourse of ‘helping the poor help themselves’ and the incremental illusion of ‘build-it-yourself’ (Davis, 2006: 80; Kapur et al., 1997: 317-319).

In the years 1976-79, the WB entered the debate about ‘basic necessities.’ The discussion was launched by the ILO and promised to give weight to ‘need’ as a criterion for resource allocation. The McNamara administration debated which could be pointed as ‘basic’ needs, how to justify them in terms of cost-benefit, and how to know that growth would not be harmed (Ayres, 1983: 85-89). After all, McNamara himself denied trade-offs between economic growth and the reduction of poverty. The debate did not go anywhere and little was translated into projects (Kapur et al., 1997: 265-267). In addition to accommodating the trickle-down theory (Streeten, 1986: 95-105), the satisfaction of basic needs was also taken as an isolated object from the set of social relations and economic policy, eluding the question of unemployment and low salaries.

Nevertheless, for the WB the most important consequence of this debate was the consecration of health and education as priority and fundable areas, linking them to the fight against poverty and the reconfiguration of social policies. At the end of 1979, the institution began to authorize loans exclusively for health. Meanwhile, the concept of human capital was belatedly internalized in the WB’s agenda. In 1980, the World Development Report (WDR)<sup>9</sup> sacramented the two new priorities in the social area. Then the principal coordinates of a model of social policy was drafted which would become hegemonic a decade later, centered on the formation of human capital and on the provision of social minimums by the state.

What balance can be made of McNamara’s ‘crusade against poverty’? First, WB loans for projects with some ‘poverty oriented’ component (not necessarily the principal) officially did not rise above one third of the total. However, this figure is overestimated, as staff exaggerated the level of project coverage, increasing the number of beneficiaries considered poor, since professional ascension depended on the volume of loans under

<sup>9</sup> The series of WDRs began in 1978 and, since then, it has been the most important annual publication of the WB. It is a guide to economic and sectorial policies in the guise of better research techniques.

the supervision of each employee (Kapur et al., 1997: 339).

Second, when compared to the magnitude of investment made by states for development, WB loans were always derisory. In fact, the impact of the organization's actions concentrated on the formation of ideas and practices related to economic and social administration. From this perspective, funding was more important as a lever to induce changes in public expenditure and public policies. In many cases, public administration agencies responsible for the regulation of entire sectors of the economy were built with loans and/or technical assistance from the WB. Frequently, this process had preventive or reactive policies with a conservative profile serving for governments to elude popular pressure for redistributive reforms.

## 6. Structural Adjustment (1980-89)

From 1973 to 1979 a series of events sensitively modified global political economic policy. Since the 1960s the international monetary system's contradictions made the maintenance of the dollar's convertibility into gold increasingly difficult for the US. In response, the US government unilaterally broke with the Bretton Woods monetary system in a series of measures practiced between 1971 and 1974 (Gowan, 1999; Brenner, 2002). In turn, in 1979, along with the second international oil crisis, the Treasury brusquely and sharply increased the US interest rate in order to counter domestic inflation and to propel the return of the supremacy of the dollar in the international monetary system. Combined with the liberalization of capital flows, the measure forced the overvaluation of the dollar and redirected international liquidity to the US, submitting the economic policy of all the other capitalist countries -whether rivals or allies- to a recessive adjustment synchronized with American policy. In a short time fluctuations in interest and exchange rates became linked to the dollar again, and as a result movements of international liquidity were subordinated to US fiscal policy. American government bonds have thus become the international economy's liquid asset *par excellence*.

At that time, the WB's actions consisted in enforcing the structural adjustment as the necessary means for the adaptation of indebted countries to the new conditions of international political economy. The expression designated a new mode of loan from the institution created in 1979, rapidly disbursed and policy rather than project oriented. Authorization for this type of operation was dependent on the prior accord of the borrowers with the IMF to carry out monetary stabilization programs and macroeconomic reforms, in order to adapt the domestic economy to the new external environment and to maintain the service payments on the debt. The first loan of this type was approved in 1980 for Turkey and constituted a 'prototype' for what would follow (Kapur et al. 1997: 548).

The beginning of the Thatcher and Reagan administrations had place in this context and were decisive in causing a radical liberal-conservative turn in the global political environment. For this New Right the end of the expansive wave of the post-war economy, the recovery of economy growth, and private profit involved the demolition of the welfare state system. At the same time, the Anglo-American axis came to propel the liberalization of national economies, combining a strong dollar's diplomacy with a political and military offensive led by the US against the USSR.

The relationship between the World Bank and the United States deteriorated rapidly. The Reagan government began to attack the Bank and other multilateral institutions for political and ideological reasons, preaching the reduction of support for them and the

strengthening of bilateral programs. Bipartisan divisions in the Congress over US policy reached an extreme and for the first time since 1944 the government supported the chorus of opponents to any kind of multilateral assistance. Until then all US governments had supported the Bank as part of its external power structure and as an important instrument for US hegemony (Gwin, 1997; Babb, 2009).

Illustrating the level of hostility towards the Bank, one of the first measures of the new Undersecretary of the Treasury was to order a study to find out whether or not the World Bank had 'socialist tendencies' since it made loans to the public sector. According to this discourse, the state and multilateral institutions should not substitute what the private sector could do more efficiently (Kapur et al., 1997: 338).

The nomination of Tom Clausen to run the World Bank in June 1981 improved relations between the White House and the Treasury. The arrival of the former president of the Bank of America – one of the largest private creditors in Latin American countries – represented at that moment a sort of direct connection between the US banks and the presidency of the World Bank. The message to the 'market' was clear.

Signaling that the game had changed, the exponents of the old generation of Development Economists were replaced by names associated with neoclassical mono-economics (such as Bela Balassa, Jagdish Bragwati, and Anne Krueger, appointed chief economist), so that the "party line" would be followed (Stern and Ferreira, 1997: 598). Themes such as the pardoning of debt and the social impact of debt became taboos within the WB. The institution's research was redirected to the defects of the state and the efficiency of markets to the counterpoint between equity and efficiency. The theme of the reduction of poverty was abandoned. Public declarations and internal documents practically no longer made any references to the question. The doctrinal and operational center came to be radical economic liberalization.

At the beginning of 1982 the Department of the Treasury finished the assessment that would guide US policy towards MDBs. For the Treasury, the performance of the Bank and the other MDBs proved that they were effective instruments at the service of US interests. Specifically in relation to the World Bank, the report highlighted that:

The international character of the World Bank, its corporate structure, the strength of the management team, and the Bank's weighted voting structure have ensured broad consistency between its policies and practices and the long term economic and political objectives of the United States (Department of the Treasury, 1982: 59).

According to the report, the Bank's loans to countries of strategic importance to the United States were one of the means by which US interests were met, since these loans came to a much higher amount than the US was willing to provide bilaterally. Moreover, the Bank's loans also served the long term economic interests linked to the construction of a deregulated international capitalist system. In the words of the Treasury:

By promoting economic and social development in the Third World, fostering market-orientated economic policies, and preserving a reputation for impartiality and competence, the MDBs encourage developing countries to participate more fully in an international system based on liberalized trade and capital flows (...) This means expanding opportunities for US exports, investment, and finance (Department of the Treasury, 1982: 48).

The report translated the neoliberal platform into various political recommendations, of which three in particular deserve to be highlighted. First, the support of the United States for MDBs was designed to accelerate the opening of national markets and the superiority of private capital in the financing of economic activities in relation to the public sector. Second, the United States had to ensure that the allocation of loans was dependent on the implementation of political reforms in the countries receiving them. Third, the United States had to gradually reduce its expenditure on MDBs, without relinquishing its veto power in these institutions.

In August 1982, the debt crisis exploded. It was the culminating point of a process of indebtedness with private American and European banks, with the connivance of IMF and the WB (Strange, 1998; Woods, 2006: 84-94). The WB's structural adjustment loans, already underway, were instrumentalized and supported by the Treasury to assist the adaptation of the debtors' economic policy.

In general terms, the WB's adjustment program consisted in the same monetarist agenda applied by the IMF since the 1960s, although with some novelties. In the sphere of macroeconomic policies, it was concerned with: trade liberalization, international market's prices alignment, and lowering protection tariffs; currency devaluation; external investment stimulation; and exports expansion, especially agricultural ones. In the field of social policies and state administration, the adjustment had the central aim of reducing public deficit, especially through measures such as: a) the cutting of expenditure on personnel and the cost of the administrative machine; b) the drastic reduction or even the elimination of consumption subsidies; c) the reduction of programs' per capita cost in order to expand their level of coverage; d) the reorientation of social policy to health and primary education, through the focusing of expenditures on the part of the population in conditions of 'absolute poverty.'

As the financial crisis deepened, in 1985 Washington announced the Baker Plan. Along with it, the Treasury defined the priorities which the WB should follow. The conditions imposed by the WB extended to the decentralization of social policies and the privatization of state companies. In a short space of time the WB and the IMF replaced private banks as the principal creditors.

As the socially regressive effects of the adjustment measures increased, the concern about the political sustainability of the process underway grew among crisis administrators. Until then, the official discourse had been that the adjustment was simply 'good for the poor,' since they would directly benefit through the trickle-down effect. This discourse changed in the middle of the 1980s, when the WB began to admit the occurrence of 'social costs.' After 1986, the modus operandi of the adjustment required the creation of social compensation programs to alleviate the impact on those parts of the population most hit or most susceptible to support the opposition.

At the end of 1989, the principal forces propelling the liberalization of the international economy held a meeting to assess the results achieved and to plan the next steps. The participants were part of the summit of the political, financial, and intellectual Washington-Wall Street complex network. They systematized a ten economic policy reforms package which became known as the Washington Consensus (WC) (Williamson, 1990).

Built over the ruins of the Berlin Wall, this decalogue expressed the convergence between the neoclassical mainstream, the US government, and financial interests symbolized by Wall Street (Guilhot, 2005: 197). Rapidly, the WC gained the status of a transnational political paradigm, centered on the liberalization of the world economy and the

reorientation of the state as a provider of a normative framework which would guarantee the security and profitability of private business. It was not an academic theory, but an international political paradigm led by the World Bank and other multilateral financial institutions, and molded by political, economic, and intellectual forces (Babb, 2013).

## 7. From the Washington Consensus to the 50th Anniversary

The end of the Cold War and soon afterwards the disintegration of the USSR have opened a field of enormous and promising action for the WB. Rapidly, the number of clients in that region went over 20, amounting to almost a quarter of IBRD's portfolio between 1991 and 1995<sup>10</sup>.

In this period, the WB developed four strategic coordinates which orientated its action in the following two decades. The first was the diffusion of a poverty relief centered model of social policy, coherent with the macroeconomic adjustment. In 1990, poverty was the WDR's central theme (World Bank, 1990). Emphasizing the relationship between international inequality, pauperization, and political instability, the WDR started from the premise of separation between 'social' and 'economic' policies. Anchored on the category of 'absolute poverty' inherited from the times of McNamara, the report left aside the question of the concentration of income and wealth and proposed a dual strategy which combined programs focused on renewed trust in the redemptory virtues of the 'trickledown effect' which, according to the report, depended on the implementation of market oriented policies. Thereby, the WB began to leave the Reagan era's narrow macroeconomic agenda and return to the McNamara period's theme of poverty, but along a path coherent with the adjustment and functional for its expansion.

The second strategic coordinate consisted in the redefinition of the state's economic role. The 1991 WDR prescribed the market-friendly approach, which preached that the state should support, strengthen, and complement the market in a free enterprise regime. In other words, 'state intervention' in the economy was no longer condemned as something undesirable in itself, but rather the sphere of the state's legitimate action was recognized. The latter was conceived as that which 'harmonized' with the market and allowed the maximization of the competition between economic agents (World Bank, 1991: 6). The state versus market approach -typical of the hypermarketized 1980s focus- began to give way to a more complementary vision. In this way, the guarantee of a favorable 'environment' for capital demanded the following functions from the state: maintaining macroeconomic stability (though the insulation of the economic team), guaranteeing public order, investing in 'human capital' (primary education and basic health), providing infrastructure, protecting the environment, controlling the birth rate, and administering social security. As an entrepreneur, the state was irremediably condemned to fail.

The third strategic coordinate consisted in the incorporation of the 'environment' in the dominant political paradigm. In effect, at the beginning of the 1990s, the fragility of the environmental flank was considered by the WB board as the most serious 'public relations' problem of the entity (Wade, 1997: 672). At that time, it became politically unsustainable to belittle the environmental impact and social tragedy caused by numerous projects funded by the institution (Rich, 1994). As a response, the WB began to talk

<sup>10</sup> As shown in the 1992 – 1995 *Annual Reports*.

about 'environmental administration.' The proximity of the United Conference for the Environment and Development, appointed for June 1992, accentuated the urgency of demarcating a position of leadership in the international arena.

Published a month before the conference, the 1992 WDR had the purpose of making the slogan 'sustainable development' compatible with economic liberalization (World Bank, 1992). The report affirmed the reciprocity between economic growth and environmental preservation to the extent that only with economic growth would be possible not just to pay for the costs of environmental protection but also to reduce social pressure on nature. The idealization of technology that supported this vision projected an unreal scenario in which all won, once governments adopted market oriented policies, since only in this way could economic activity grow with maximum efficiency in the use of resources.

In summary, at the beginning of the 1990s, the WB responded to environmental criticism by greening itself. This process, far from putting the neoliberal program in check, constituted a new front of action centered on the promotion of an international regime of institutional rules and practices, which made the mercantilization of natural resources feasible (Goldman, 2005: 121-131).

The fourth coordinate defined by the WB functioned as an element connecting all the others and consisted in the enthroning of the idea of governance. This idea was introduced into the WB vocabulary in 1989 by a report about the implementation of the structural adjustment in Sub-Saharan Africa (World Bank, 1989). According to the report, the growth in private investment and adjustment programs had not produced the expected results in the region in terms of the efficiency and reduction of poverty due to 'bad' governance among the actors who operated in the domestic sphere. Since then, this has become the standard response of the WB to critics of the adjustment.

In 1992 the WB published the first specific bulletin about the question, centered on the message that institutional engineering and the quality of public administration were crucial to implement the adjustment. Governance was defined as the "manner in which power is exercised in the administration of social and economic resources of a country for development" (World Bank, 1992a). For the creation of an environment suitable for the liberty of capital, 'solid' economic policies were not enough, it was also necessary to adapt the legal frameworks and improve the quality of public administration and governmental action as a whole. The thesis that the efficiency of public administration depended on the connection between the state and civil society was pushed into the front rank. Civil society was conceived as a synonym of voluntary associations and NGOs and a virtuous counterweight to the 'evils' of the state.

Praise of the role of NGOs for good governance was materialized in the WB's operations. In effect, the entrance of NGOs into the institution's cycle of projects had grown continuously during the 1980s, reaching almost half of its projects in 1994<sup>11</sup>. To a large extent, this process resulted from the growing permeability between the NGO field and the international aid industry and was fed by the structural adjustment, which opened an enormous space for those NGOs prepared to perform functions ripped from the state in the social and environmental areas. To survive and prosper in an increasingly competitive market — the international market of consultancies and the administration of social projects —, activists were converted into specialists in laws and 'responsible practices,'

<sup>11</sup> As shown in the 1998 and 1999 *Annual Reports*.

accrediting themselves to negotiate the raising of funds in increasingly globalized political and business circles ((Dezalay and Garth, 2002; Guilhot, 2005).

The entanglement of NGOs — in particular, those based in the principal member states — in WB's operations was not a process exempt from contradictions (Nelson, 1995; Tussie, 2000). The organization culture of the WB had been closed for a long time to any type of collaboration with NGOs. Little by little, the WB became a more open organization, with the additional effect that collaboration with NGOs, even the most critical, could limit the scope of criticism, due to their adaptation to the rules of development aid.

Furthermore, the governance agenda became possible through the increasing use of structural adjustment loans, which gave the Bank instruments to reform the institutional infrastructure of client states, and by the combination of the end of the Cold War with the euphoria of financial globalization, which eliminated the political constraints on the US and other donors from violating in practice the national sovereignty of countries in the global south. Governance thereby came to be the general slogan which agglutinated policies, techniques, and knowledge necessary to propel and direct social change within states without the exercise of direct political control (Williams, 2008). Emblematic in this way is the exaltation of this agenda by representatives of countries such as the US, Great Britain, Germany, and France at the same time.

At the end of 1994, once again the Mexican economy collapsed, this time when the North American Free Trade Agreement (NAFTA) had begun. In a few months the country dived into its greatest recession since the 1930s. Rapidly, Washington marshalled an unprecedented package of financial aid, of which the WB and IMF were part. For the first time since the end of the Cold War, neoliberal euphoria suffered a shock. The WB's response to this situation consisted in increasing the intensity of the macroeconomic adjustment, institutionalizing the relief of extreme poverty as the kernel of a new generation of social policies and initiating a slower and more complex cycle of profound institutional reforms (World Bank, 1997, 2002; Burki and Perry, 1997; Burki and Perry, 1998; Naím, 1994). The WB has been the pivot for the diffusion of this agenda since then, through conditions in its loan operations, technical assistance to national and subnational governments, connected with other multilateral institutions and an extensive production of policy guides (Craig and Porter, 2006; Williams, 2008).

## 8. Conclusion

The Bank's ascension to the condition of a relevant multilateral organization in the post-world war was anchored, from the political and financial point of view, by the United States, which was always the largest shareholder, the most influential member, and the only one with veto power over statutory changes in the institution, forging it as part of its global infrastructure. Relations with the US were decisive for the growth and general configuration of the WB's policies and institutional practices. In exchange, the US widely benefitted from its actions in the economic and political spheres, more than any other shareholder, both in the short and long term.

US policy towards the WB has always been an object of dispute and bargaining between diverse economic and political interests about the role of multilateral cooperation for development. From this dispute two vectors emerged whose balance varied over the period examined. On the one hand, the US led the construction in the international aid industry and the WB as instruments to promote a free international economy open to

capital in the post-war period, supporting multilateral cooperation as an effective means for leveraging and allocating resources for this purposes and thereby reducing the cost of bilateral economic aid to the US. On the other hand, the US also sought to instrumentalize international organizations, including the WB, for immediate purposes of its foreign policy, contrary to its preaching against multilateralism.

Over time US policy towards the WB came to involve an increasing number of actors. From the end of the 1960s, the growing interference of Congress in foreign policy reached the WB, creating opportunities during the following decade for the various interests which influenced American provisions for the institution. Until then Washington's policy for the WB had basically been defined by the discrete game of power between the Treasury and the State Department. In the 1980s, various political groups and NGOs learned to act within the Legislature, with the aim of providing an agenda for the WB's actions in social and environmental questions. After this, Congress began to target lobbies and public campaigns aimed at influencing US policy towards the WB. This transformed the US Congress into the only parliament whose procedures have an impact on the agenda and forms of action of the WB which, paradoxically, reinforced the influence of the US on the organization.

There has never been a single US policy towards the World Bank, and this became even more true as more political and economic actors (members of congress, businesses, NGOs, large philanthropic foundations, etc.) had the conditions and capacity to influence it. In other words, the construction of 'American interests' within the Bank has been a product of the conflict between ideas, economic and political interests, and political priorities which gained greater or lesser strength in accordance with the dispute between various – and at times opposing – agents.

The WB has always acted as more than a mere financial agent. After all, together with money came ideas and prescriptions for governments of client states in questions of economic and development policies. In effect, the WB continues to exploit the synergy between credit, political prescriptions, and economic knowledge to expand its influence and institutionalize its agenda.

By 1994 the WB had become an immense and extremely complex organization, much different from that created in 1944. Five decades growing and performing more functions through successive increments, the WB operated much beyond its original area of competence, covering a wide variety of dimensions of development. This process was supported by Washington and its principal allies during the Cold War, and survived this through the spread of economic liberalization to all societies from South to East. On the other hand, the institutional stretching of the WB opened ports of entry allowing, in an increasing and often contradictory manner, various actors to become part of the institution's policies and priorities.

Following a macroeconomic adjustment and good governance agenda, the WB reached its 50<sup>th</sup> anniversary in a paradoxical situation. On the one hand, it reached its historic maximum in terms of geographic scale, loan volume, and intellectual authority, and its actions had decisively contributed to the creation of an economy open to capital. On the other hand, it found itself subject to criticism from very diverse points of the political spectrum. In effect, with the end of the Cold War, financial deregulation and the magnitude of banking concentration in the world put into question its relevance as an economic actor. For the WB, although money had functioned as a lever to spread ideas and prescriptions with an Anglo-Saxon perspective about development, credit was always fundamental and this was what distinguished it from other multilateral organiza-

tions. This debate arose at the beginning of the 1990s, and since then has never left the agenda. On the other hand, the WB was also pressurized to change its program and practices, due to the enormous social and environmental liability created or worsened by its actions, and its history of opacity, and the low level of accountability. These questions have also remained since then.

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