Appendix One

The World Bank and the State: A Brief History

The 1950s: the State as Engine of Development

For its first twenty years the World Bank saw itself as primarily a project-lending institution, with a particular emphasis on infrastructure. Mason and Asher's 1973 official history of the Bank recorded that the Bank believed that a "primary condition" for development was an "adequate complement of public overhead capital: railway, roads, power plants, port installations, and communication facilities. This capital is customarily provided by the public sector, which must be developed systematically, with due attention to the progressive elimination of bottlenecks. Hence the need for planning and programming public sector investment." In line with a consensus in the academic development profession during the 1950s, the Bank felt that market incentives worked inadequately in developing countries and so the government should play a major role in determining the allocation of resources, particularly of investment.

The Bank saw, however, clear limits to the public sector's scope and was very critical of a 1949 UN Economic and Employment Commission Report which advocated heavy industrial projects in the public sector. Mason and Asher comment that the private sector was seen by the Bank as the "appropriate sphere of development for agriculture, industry, commerce, financial and personal services".

In the 1950s the Bank's lending was small and mainly not directed to the poorest countries. The Bank followed closely its article of agreement which states that its loans "shall, except in special circumstances, be for the purpose of specific projects" rather than for fungible macroeconomic interventions where states should be sovereign. Its relationship to member states tended to be non-confrontational.

India 1959-1967: An Experiment in Structural Adjustment

India and Pakistan came centre stage in the late 1950s and early 1960s and the Bank's engagement with the sub-continent marked a move from an individual project focus to an economy-wide view. The conceptual division between loans suitable for the public and private sectors progressively lost its sharpness whilst the Nehruvian model of socialism was tolerated by the Bank and other donors.

By the mid 1960s the Bank changed its tune and became more critical of the Indian state. It was ready to experiment with its first real structural adjustment loan (SAL) in 1964-65, suggesting widespread liberalisation of controls over trade and industry, and the devaluation of the rupee. The Indian government, facing economic crisis, capitulated and devalued the rupee in 1966. But the liberalisation process was soon curtailed particularly due to growing hostility towards what was seen as leverage by Westerners. The Indian experience marked a move from isolated loans for infrastructure projects to the manipulation of entire economies.

The McNamara Years 1968-1981

Under its President Robert McNamara the Bank grew and became more powerful. Its staff increased from 1,500 to 5,200 and the dollar quantity of loans rose sixfold. The Bank began to dwarf most states in research, expertise and financial clout. McNamara's war on poverty gave a justification for intervening more aggressively in states affairs although the main concern for most of his tenure was to kick start growth by sharply increasing capital inflows. The failure of these loans to produce results provoked a switch to macroeconomic intervention at the end of his term in office.
Structural Adjustment: The Ideal of a Minimalist State

Structural Adjustment saw the state as its prime focus of attack. The policy prescriptions of liberalising financial markets, ending minimum wages, ending quotas and subsidies, slashing state monopolies and price controls, floating exchange rates and boosting privatisation all had one common underlying theme: to prevent state officials meddling in the economy. McNamara first proposed long-term non-project assistance in return for structural adjustment at an UNCTAD meeting in Manila in 1979, and the first wave of structural adjustment loans began in 1980-81. These loans were premised on an uncompromising ideological espousal of the merits of a free market and the failure of the state to solve market imperfections. Despite some notable exceptions (such as an avowedly pro-market 1961 Spanish Country Report) the Bank had not taken a strong pro-market view until the end of the 1970s.

1989: States Must Practice Good Governance

By the end of the 1980s the Bank, while still promoting the rolling back of the state through structural adjustment, simultaneously started to be more concerned with the quality, and not just the quantity, of state capacity. A 1989 report on sub-Saharan Africa blamed the failure of structural adjustment to reap tangible rewards in the region on the failure to implement structural adjustment loans, and not the structural adjustment loans themselves. Problems were said to derive from poor government or, as the Bank preferred, the more neutral “governance”.

Policy statements from other aid donors in the late 1980s and early 1990s were militant and provocative in asserting that multi-party democracy and civil liberties were essential parts of “good government”. But the Bank was more cautious because it feared transgressing its Articles of Agreement which forbid interference in the political affairs of member states. Its official policy statement on these issues came with the publication of Governance and Development in 1992 which explicitly stated the Bank’s intention to work further on governance defined as the manner in which power is exercised in the management of a country’s economic and social resources for development. Four main fields were identified:

- public sector management,
- accountability,
- legal frameworks,
- information and transparency.

To comply with the Bank’s Articles of Agreement, Bank interventions would concentrate on the economic and social dimensions of governance. In 1994 participation was officially endorsed by the Bank’s Board as a means to facilitate governance.

1993: The Publication of the "East Asian Miracle"

The publication of The East Asian Miracle: Economic Growth and Public Policy in 1993 spurred expectations of a radical change in the approach to the state. In response to Japanese pressure on the Bank to reflect the degree of state interventions in promoting successful development, Lewis Preston, in the preface to the "Miracle", remarks that particularly in North-East Asia "some selective interventions [by the state] contributed to growth”. But despite this concession the rest of the document fails to fully endorse the role of states in the development of Taiwan, South Korea, Singapore and Japan and suggests that other developing countries should not follow their example. In a subsequent report, Bureaucrats in Business (1995), the Bank made no mention of this new perspective.

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