The World Bank in an Unchanging State

The Bank’s 1997 World Development Report is clearly a response to the wide array of concerns about globalisation and economic liberalisation emanating from many quarters (see Chapter 3). Markets and states, says the Report, should not be viewed as opposites, but as complementary – the state’s role being "essential for putting in place the appropriate institutional foundations for markets." Indeed, the Report warns that, unless states can improve their "effectiveness" and invigorate public institutions, their prospects may be bleak. Increasing public strife, rampant corruption and the collapse of many states are likely to be the result.

The Bank argues that government credibility, defined as the "predictability of rules and policies and their consistent application" is now as important for attracting foreign investment as the content of those rules and policies. The Bank thus puts forward a two-pronged approach to strengthening the state. First, states must try to match their role to their capability; and second, they should work to improve their capability. Weak states should concentrate on the basics, the most urgent tasks being to:

- establish a foundation of law;
- maintain macroeconomic stability;
- invest in basic social services and infrastructure;
- protect the vulnerable; and
- protect the environment.

Weak states are also advised to formulate only modest goals whilst considering two strategies that might help them become more "successful." One is to bolster policies with strict rules that make policies costly to reverse. This implies such ideas as currency boards (panels of economic experts who restrict a government’s ability to vary monetary policy) and international agreements that make it difficult to retreat from commitments to more open trade. Another suggestion is for weak states to withdraw from project or programme implementation and contract private firms or non-governmental organisations instead. A third set of proposed reforms involves "reinvigorating the state’s institutional capability by providing incentives for public officials to perform better while keeping arbitrary action in check." Key to that process are policies aimed at:

- establishing effective rules and restraints;
- fostering competition; and
- increasing "citizen’s voice and partnership with the private sector".

Addressing corruption, says the Report, is particularly important if authority is to be restored to state institutions: policies that lower controls on foreign trade, remove entry barriers for private industry and privatise state firms are thus essential since these introduce the competition that "will help fight corruption".

Finally, the Report strongly emphasises the need to involve citizens in decision-making. Governments are most effective, it argues, when they listen to, and work with, citizens and businesses. "Where governments lack ways to listen they are not responsive to people’s interests, especially those of minorities and the poor." Greater information and transparency, combined with participatory approaches to project implementation, are thus deemed vital for informed public debate and "to increase popular trust and confidence in the state."

Some Welcome Rethinking...

The Report’s apparent rejection of any further roll back of the state and its calls for an "effective state" have been welcomed by many as signalling a rejection of the Bank’s previous free market fundamentalism. On its publication, the left of centre London newspaper, The Guardian, called the Report...
"an astonishing volte-face", in which "the Bank has abandoned its long-running support for minimal
government in favour of a new model based on a strong and vigorous state". Britain's Secretary of State
for International Development, Clare Short, similarly interpreted the report as evidence that: "the era of
complete enmity to the public sector in general and state provision in particular is coming to an end".

Even before the Report's publication, and in the process of its production, there were signs of some
welcome rethinking within the Bank and an openness to other views. The Bank involved non-governmental
organisations and others in discussions at a very early stage of preparing the Report rather than, as
previously, simply asking for written comments on a late draft. Statements from senior Bank officials also
signalled what many interpreted as a sea-change.

At the Annual Bank Conference on Development Economics in April 1997, for example, Joseph E. Stiglitz,
the World Bank's recently recruited Chief Economist, acknowledged that recent reforms have emphasised
economic fundamentals to the exclusion of social, institutional and environmental issues. He said that:
"theory may tell us that under certain idealized circumstances market economies are efficient. But theory
provides us with less clear prescriptions for the second-best situations in which we inevitably find ourselves,
in which many of the idealized circumstances underlying the pure theory are not satisfied."

The Bank, said Stiglitz, should recognise that "many of the countries that were successful did not take the
particular medicine that was then being dispensed by the development community" and that "what is
required is not deregulation, the naively stripping away of regulation, but regulatory redesign, the changing
of the regulatory structure in ways that promote competition where it is viable and that ensure that
monopoly power is not too badly exploited where competition is not viable."

Similar sentiments are expressed in the 1997 World Development Report. Recent reforms, says the Report,
"have emphasised economic fundamentals [but] social and institutional (including legal) fundamentals are
equally important to avoid social disruption and ensure sustained development." It comments that "well-functioning markets are usually the most efficient means of providing the goods and services an economy needs, but not always. In particular, markets under-supply a range of collective goods: public goods and private goods that have important spillover benefits for society at large. Generally these are goods that have a significant impact on the quality of life: clean air and safe water, basic literacy and public health, and low-cost transportation and communications." Moreover the Report concedes that "in some areas the traditional roles for regulation remain and market liberalisation and privatisation have themselves brought new issues to the fore."

Having long denied the role of state intervention in the rise of many of today's successful market economies
the Bank now acknowledges the "vital, catalytic role [played by the state] in the development and growth of
markets in Europe, Japan and North America", and goes on to conclude that:

"An effective state is vital for the provision of goods and services and the rules and
institutions that allow markets to flourish and people to live healthier and happier lives."

State-dominated development has clearly failed, argues the Report, but some countries have moved too far
towards market-based strategies, and "without an effective state, sustainable development, both economic
and social, is impossible." The Report points to the collapse of states such as Liberia and Somalia as a stark
warning of where stateless development can lead.

The Bank also appears to have shifted its stance on the East Asian Newly Industrialised Countries (NICs).
Whereas in previous reports it had denied, or downplayed, the relevance of NIC policies to other areas, it
now ascribes the poor economic performance of African countries compared to the NICs in large part to
"the superior performance of the state in East Asia". Indeed, the NICs are presented as the model for
other countries to emulate: not only have they achieved high levels of industrial growth by "harnessing the
energy of the private business and individuals and acting as their partners... instead of restricting their
partnership" but, through introducing private competition with their civil services, they have "transformed
weak, corrupt, patronage-based bureaucracies into reasonably well functioning systems".

The World Bank and the State
In addition, passages of the Report appear to eschew the Bank's previous commitment to the blanket imposition of a single, uniform set of policies in each and every country: "What works in the Netherlands or New Zealand, say, may not work in Nepal. Even among countries at the same level of income, differences in size, ethnic make-up, culture and political systems make every state unique." To improve the effectiveness of states, the Bank now argues, requires "matching the state's role to its capabilities", and a less dogmatic approach to implementation. There is no "one-size-fits-all" reform programme, and inflexible insistence on monetarist policies can cause considerable economic damage as policy makers "overshoot the mark". As the Report puts it, "cutting consumption indiscriminately to boost equally indiscriminate investment is clearly not the answer."

... Or Old Medicine in a New Bottle?

A close reading of the Report, however, and consideration of the wider international and historical context in which it has been written, suggests that, in many important respects, the WDR constitutes not so much a sea-change in Bank thinking as a repackaging and updating of the neoliberal agenda. The political significance of the Report's rejection of a minimalist state, for example, amounts to little in the face of now abundant evidence that neoliberalism has been less about stripping back the state than about redirecting it. Disavowing a minimalist state that has never existed constitutes sharp political manoeuvring rather than a U-turn.

The End Of Ideology?

Although calling for an effective state, the Report begs the key question: effective for whom? The Bank acknowledges that "different groups may hold conflicting views about the role of the state" but fails to engage with those different views or to discuss their validity. Instead, the WDR adopts a tone and a language which implies that the superiority of neoliberal policies over other development agendas is self-evident. Throughout the Report, "good policies" are equated with neoliberal policies, as if the debate over what constitutes "good policies" was somehow resolved. "Although the recipe for good policies is well-known, too many countries still fail to take it to heart". Market liberalisation, privatisation and "clear cut rules for imposing restraints on actors at each level of government" represent the right approach; penalising private wealth and other "wrong kind of rules" do not.

Indeed, the Bank suggests, the debate over economic policy was effectively settled 200 years ago with the publication of Adam Smith's Wealth of Nations when it became "generally recognised that the market was the best instrument for realising growth and improving welfare". Underlying the Report is an assumption neither discussed nor supported that market-led economic growth is the only way to provide "healthier, happier lives", the efficient provision of services, the sustainable use of the environment, the stamping out of corruption, the relief of poverty and the promotion of democracy. No such consideration is given to the role of the market in creating social exclusion, strengthening inequitable power relations, or exacerbating "ethnic" tensions and introducing new forms of corruption.

The Report fails to engage directly with critics of neoliberalism, or with alternative approaches to development. Nowhere, for example, is there any discussion of the arguments raised by anti-poverty groups about the role that Northern states could play in relieving Third World sovereign debt. There is no discussion of the many proposals made by trade unionists and others to address states' role in securing labour rights in a globalised economy. Likewise, the Report is silent on the issue of states implementing international and national controls on transnational companies or on NGO proposals to reform the WTO in order to address inequities in the world trade system. Nor, significantly, does the Report engage anywhere with the fundamental criticisms of neoliberal economics and its underlying neoclassical theory which have been made by the Japanese aid community and others.

Instead, there is a tendency either to distort the case made by critics by simplifying its complex and varied politics: "in many countries that have previously relied entirely on state utilities, many groups continue to resist privatisation on ideological grounds", or by relying on a partial view of recent history. Popular opposition to economic policies is transformed into a "clamour for greater government effectiveness . . . in many developing countries where the state has failed to deliver even such fundamental public goods as
property rights, roads and basic health and education. The Report does not deal with the role of structural adjustment programmes in weakening states and causing unrest but argues that postponing reforms may cause "political and social unrest and, in some cases, disintegration, exacting a tremendous toll on stability, productive capacity, and human life".

Elsewhere critics who question the social and economic impacts of liberalisation are guided towards the WTO membership figures for reassurance: "The growing global consensus on the benefits of more liberal trade and international market expansion is reflected in the large and growing membership of the WTO." There is, however, no substantive discussion anywhere in the Report of the uneven nature of those "benefits" nor any acknowledgement of the external political pressures placed on countries (not least through aid agency conditionalities) to join bodies like the WTO.

Governance by Economics

Reflecting the Bank's continued neoliberal framework, the Report views an effective state almost exclusively through the lens of economic efficiency. The state, says the Report, is essential for putting in place the appropriate institutional foundations for markets. Its existence is justified where it acts to support private sector-led growth and unjustified where it does not. State owned enterprises should therefore be privatised where possible. "Getting the state of the business of providing many of the goods and services it now provides", however, "will still leave it with plenty to do". "Where it is no longer a direct provider, the state must become a partner and facilitator, regulating markets, enforcing contracts and pursuing the essential roles [of investing in basic infrastructure and social services, protecting the vulnerable and protecting the environment]. Indeed, "the mark of a capable state . . . is its ability to set the rules that underpin markets and permit them to function."

Using public money to bolster the effectiveness and capacity of the state (as defined by the Bank) is justified, since "faith in governments' ability to sustain good policies can be as important for attracting private investment as the content of those rules and policies." One outcome of the Report's economistic approach is that it grossly oversimplifies the complex political, social, cultural and economic landscape in which states and markets operate. It also depoliticises the debate over what constitutes an effective state. The underlying assumption in the Report is that what the state can or should do is a technical question, largely independent of society. The key objective is neoliberal reform and the only issue at stake is how best to implement the package. Rather than concluding that economic liberalisation risks seriously undermining governments' budgetary and other powers, it concludes that reliance on external capital increases "discipline on policy-makers" and "makes it more costly to pursue inconsistent policies." The Bank does not consider the dangers of policy being so heavily influenced by the interests of the financial markets or how this may frustrate government attempts to represent the wider collective interests of society as a whole.

As a result, minimal consideration is given to the fundamental question of what institutional, social and economic arrangements best ensure that the state and all levels of government are representative of collective interests and that policy is decided in a manner that includes all citizens. There is no discussion, for example, of the appropriateness or otherwise of Western-style multi-party political systems in non-Western contexts or of the strengths and weaknesses of commons-based approaches to governance and the provision of livelihoods.

On the contrary, the Bank's assessment of the "effectiveness" of political processes, procedures and institutions is based entirely on whether they act as lubricants or potential barriers to economic reform and fiscal discipline. The report expresses disapproval of Uruguay's practice of holding referendums on key issues, for example, because two recent plebiscites in 1989 and 1992 respectively guaranteed full wage indexation every three months and reversed major privatization legislation. Likewise, the Bank expresses concern that the coalition politics that frequently result from proportional representation voting systems can prove "a barrier to reform" and notes disapprovingly that "both Belgium's and Italy's very high level of public debt have been partly attributed to two decades of being governed by large and unstable coalitions." Research showing that more consensual forms of democracy obtain equivalent economic results to majoritarian forms is ignored.
An econometric analysis outlined in chapter 9 of the Report claims to show, and notes without comment, that governments’ ideology is a statistically insignificant factor in determining whether countries expand their welfare spending. Increases in welfare spending (on pensions, unemployment and family assistance) are explained mainly by the percentage of people above 65 years of age in the population and the checks and balances in the constitution. The Report attempts to use economists’ techniques to provide guidance on sensitive political decisions, advocating a “political cost benefit approach”. The latter aims to assess the benefits of reforms such as trade liberalisation by forming equations to answer the question of “how much redistribution takes place for a given amount of efficiency gain”.

**Locking Society Out**

Nor is this surprising, for many in the Bank are deeply suspicious of the public having too great a say in policy making. Although the Report emphasises the need for greater participation in decision-making in order to bring “government closer to the people”, the Bank expressly rules a number of key policy areas off limits to public participation, since they “require insulation from political pressure.” Chief among these is macroeconomic policy, where, the Bank argues, “strong, central guidance, in budget and financial matters has proved critical in ensuring sound public finances and a reliable framework for economic development in most industrialised countries.”

Of particular concern to the Bank is the possibility that participation, popular protests, elections or similar expressions of peoples’ views may lead to reforms being reversed. While in the long-run the Bank advocates building up domestic institutions to maintain policy stability and show investors that policies will be maintained, for the near future it argues that reforms can only be entrenched through “international commitment mechanisms”, by which it means “stronger ties with external actors, for example through stabilisation programmes with the IMF”. The Bank explains:

“To some extent, extraterritorial and international restraints can substitute for limitations on the ability of national institutions to enforce rules and to signal credibly that the rules will remain reasonably stable over time.”

The Bank’s treatment of the states’ role in enforcing the “rule of law” should be clearly understood. Although much of the Report’s discussion on this theme concerns conventional “law and order” issues, such as reducing crime and corruption, it is important to recognise the very specific meaning of the phrase “Rule of Law” in the neoliberal canon. The idea is not that citizens should have the right to promote legislation through their own democratic institutions or that states should have the authority to enforce popularly-mandated legislation: rather it is that the scope of state action should be limited through laws or other lock-in mechanisms.

The notion is profoundly undemocratic. Indeed, one of the principal intellectual architects of neoliberalism, Frederick Hayek, wrote that if democracy means “the unrestricted will of the majority”, he is “not a democrat”. In his view, unless the majority are constrained in their actions by general rules the Rule of Law there is no guarantee that what they decide will be good or wise. Hayek’s disdain for liberal democracy is echoed in the Bank’s concern that “transitions to democracy are sometimes associated with increased budget deficits and inflation” and that therefore “states need skill to manage the transition to democracy” in such a way that it does not impede the development agenda. Neoliberals have followed Hayek’s logic to argue that the regulations needed to ensure the proper functioning of markets which they hold to be the only legitimate means of ordering human material resources should be agreed internationally and be enforceable through international law, since national legislation invariably leads to protection and trade barriers.

The Report argues, in this tradition, that international agreements are an important means of “strengthening commitments not anchored by any domestic institution”. “On the trade front, both the European Union and the North American Free Trade Agreement have been able to play this role,” comments the Bank, adding that “many countries will find it an important reason to join the World Trade Organisation.” A
number of other "lock-in mechanisms" ("all with the same basic logic: to provide checks that restrain any impulse to depart from announced commitments") are also recommended by the Bank.288 A well-functioning, independent, central bank, for example, can reduce the threat of politically motivated monetary expansion while maintaining some flexibility to accommodate unavoidable outside shocks. Where countries lack "a prior foundation of checks and balances on arbitrary action by public officials", however, an independent central bank may not deliver the desired low inflation rates and other options may have to be considered such as choosing "a conservative central bank governor, one who is more opposed to inflation than society in general." 289

Engineering Consent

Indeed, to the extent that the Bank sees people being involved in decision-making, it is in discussions on how services are best delivered at the local level, on how local commonlands are best managed, and on the planning and implementation of individual infrastructure projects.290 At this level, NGOs are seen as a cost-effective means of delivering many of the services currently provided by many states.291 The case for decentralisation, which many favour as a means of allowing people a greater say in the decisions that affect their lives, is similarly evaluated in terms of its effects on the national economy.292 The Bank expresses concern that too much decentralisation may lead to increasing demands on the state and pressure to reverse reforms:

"Policy makers in central government may lose control over the macroeconomy as a result of uncoordinated local decisions and regional disparities can widen, exacerbating economic and social tensions. Local government can fall under the sway of particular interests, leading to abuse of state power and even less responsive and accountable government. The message, here as elsewhere, is that bringing government closer to the people will only be effective if it is part of a larger strategy for improving the institutional capability of the state."293

Public involvement in defining the state's major actions and overall policy directions, however, is not something that the Bank seeks to encourage. On the contrary, participation is portrayed primarily as a tool for engineering consent at a local level to policies already framed by "right-minded" governments at the national level. Indeed, much of the discussion on participation appears to be motivated by a perceived need to manage and contain the backlash that reforms may provoke from politically-organised groups. As the Bank puts it:

"Reform will . . . encounter considerable political opposition. But reformers can make a good start by strengthening central agencies for strategic policy formulation, introducing more transparency and competition, hiving off activities with easy specified outputs, seeking more feedback from users about the delivery of services, and working with labour unions on programmes that will enable workers to seek security in change rather than seek security against change."

"Compensation of groups adversely affected by reform . . . can help secure their support. Although compensation may be costly in the short run, it will pay off in the long run."

"Evidence is mounting that government programmes work better when they seek the participation of potential users and when they tap the community's reservoir of social capital rather than work against it. The benefits show up in smoother implementation, greater sustainability, and better feedback to government agencies;"294

The Report does not mention or address more radical analyses which see participation as not just a check on the power of government, but as a means to empower marginalised groups in a way that may enable the shifts in power necessary to alleviate poverty. As Caroline Harper, Research Director of UK-based development charity Save the Children, explained in a recent paper:
"when individuals and agencies talk about participation and empowerment they may be talking about working within the current set of relations to achieve project objectives or they may be talking about participation and empowerment to achieve fundamental structural change."

"Participation, confined to the administration of development projects, is bureaucratised and loses its political potential for structural change. In these situations the immense development apparatus aimed at improving the lives of the marginalised and poor can effectively prop up an unsustainable system and lend an acceptable face to unacceptable structural inequality. Many NGOs and other groups argue therefore that participation must be extended to policy dialogue."295

Blind to Corporate Power
Underlying the Bank’s analysis is a deep fear of the "capricious" state. The text is littered with references to the need to limit the scope for "arbitrary action"296 by officials and the need to "cut back on their discretionary authority".297 Yet, the Report makes little or no mention of capricious, unaccountable or arbitrary action by the corporate sector or of controls which could be introduced to address the abuse of corporate power. The discussion on corruption exemplifies the approach. Most of a chapter is devoted to corruption in the public sector, yet there is no analysis of the extent of corruption and patronage in market economies or of the many well-documented instances of money being used by private sector companies to manipulate political and legal systems in "free market" economies such as the US and UK and in Malaysia.298

Likewise, whilst the Report insists on a causal link between protectionist policies and corruption ("any policy that creates an artificial gap between demand and supply creates a profitable opportunity for opportunistic middlemen"),299 it fails to examine how liberalisation may also have created an environment in which corruption flourishes.300 Structural adjustment, for example, has created a host of unpaid civil servants, who frequently have little option but to charge clients extra for their services or to moonlight as entrepreneurs if they and their families are to survive. Nonetheless, despite not being paid, millions of civil servants around the world turn up every day to staff hospitals, teach in schools, administer government departments and keep antiquated public services going. A sense of civil duty and community survives (and even flourishes) despite the prevalence of petty corruption a side of the story that is omitted from the Bank’s discussions.

The discussion of political patronage in the Bank’s Report is similarly skewed, the policy recommendations being restricted to combating patronage systems within state bureaucracies, thus creating the impression that political patronage is almost exclusively a feature of "overblown states". The following passage is illustrative:

"Reforms that open opportunities for private entry into closed sectors of the economy, but leave that entry to the discretion of public officials rather than establish open and competitive processes, also create enormous scope for corruption. Formal checks and balances can also help reduce official corruption, but they are seldom enough. Reforming the civil service, restraining political patronage and improving civil service pay have also been shown to reduce corruption by giving public officials more incentive to play by the rules."301

A more rigorous analysis by the Bank might have looked also at the transformation of patronage networks as a result of privatisation and the opening of countries to international trade. In Malaysia, for example, recent studies document the extent to which many large contracts for private sector projects have been awarded not as a result of open tendering but on the basis of personal contact and/ or ethnic criteria.302 Similar examples abound in the North, as exemplified by the Pergau dam scandal in Britain.303

Market discipline does not simply reduce corruption; it replaces state actors by market actors. Indeed, when it comes to the market in general and the corporate sector in particular, the Bank appears power-blind.
Although it shows itself to be quite at home with the issue of power when analysing the operation of state enterprises, power is ignored when examining the operations of the market; this despite the trenchant critique of neoliberal economic theory made by the Japanese development community in its background paper for the Report, and similar critiques from NGOs and academics. The structural imbalances of power that mean people enter markets unequally are not addressed anywhere in the Report, nor is there any discussion of what actions states should take to address those structural inequalities (see Chapter 3) and whether they will have the power to do so.

Likewise, there is extensive treatment of the need to prevent the "local capture" of state institutions by "rent seeking" officials, but no discussion of how to address corporations capturing regulatory and legislative processes, of the means at states’ disposal to assess and address companies’ monopoly power or their use of techniques such as transfer pricing and offshore accounting.

Inevitably, the Bank’s power-blind approach to the market leads to exaggerated claims for its market-led reforms. In putting the case for privatising certain health care services, for example, the Bank argues that public funding of clinical health services has "entrenched social inequalities because wealthier groups benefit disproportionately from hospital care". Most curative health care, the Bank argues, is a (nearly) pure private good, "if governments do not foot the bill, all but the poorest will find ways to care for themselves." The experience of health care privatisation in Chile, however, suggests that this is far from the case: inequalities of power and wealth mean that privatisation has excluded an increasing number of people from adequate health care (see Chapter 2) and that, in many cases, the poor and middle classes still end up subsidising the rich. Moreover, as Public Services International, a trade union federation, points out, "It will surprise many people who have benefited from public health services to hear that the Bank regards most curative health care and higher education as a ‘nearly pure private good’ in other words, it is of benefit only to the people treated or educated and not to society as a whole."306

Danish academic John Martinussen explained the limitations of the Report’s focus on market mechanisms as follows:

"Effectiveness and efficiency cannot be treated as socially neutral. It may be at the margin of the Bank’s mandate, but it has become part of the tradition among donors to expect from the Bank special considerations concerning the poor. These are lacking in most of the Report. Improving delivery [of services] needs to be tackled in a differentiating manner, as seen from the perspective of the rich as well as from the perspective of the poor. And it is evidently more costly for the state to deliver services to the poor who cannot contribute financially or only marginally so. This issue is only dealt with sporadically in the Report. It is not systematically integrated into the recommendations on institutional development strategies. This is particularly evident in the discussion of external [citizen] pressure as a means to improve performance. The outcome in social terms depends very much on the kinds of external pressure, and it is generally the case that resource-weak segments of the population are in a bad position to exert any major pressure on the state agencies and even worse off when it comes to exerting pressure against commercial undertakings. In other words, external pressure although in principle one of the available means to enhance performance may in practice result in socially biased delivery. Again the underlying assumptions about society as free of conflicts and about citizens as a homogenous group interfere with the Report’s recommendations."307

**A Role for Intervention?**

The Bank accepts that the state has a role to play in “protecting the vulnerable” through social welfare programmes. It is not enough for states “merely to deliver growth”: the state also has an obligation “to ensure that the benefits of market-led growth are shared through investments in basic education and health.” More generally, the Bank also acknowledges that “market failures continue to offer powerful economic arguments for state intervention.”309
Nonetheless, the Report’s support for strong state regulation is lukewarm. Indeed, it explicitly argues against intervention in many of the areas where regulation is perceived by critics to be most urgent for example on the environment. “Government intervention is not the only answer to pollution”, the Report opines. “A expanding toolkit of innovative and flexible incentives is now available to get polluters to clean up their act. Although there is no substitute for meaningful regulatory frameworks and information about the environment, these new tools, which rely on persuasion, social pressure and market forces to help push for improved environmental performance, can often succeed where regulation cannot.”

The many severe difficulties with market-based approaches to pollution control are glossed over, leaving the impression that voluntary approaches provide realistic alternatives to regulation although the Report itself notes that the Indonesian Clean Rivers programme, relying on voluntary codes and industry self-regulation, failed to generate any positive action by nearly half the firms claiming to participate in it. Similarly experience in Europe suggests that while some products and processes have undoubtedly been improved, overall voluntary schemes have failed to encourage industry to strive for higher environmental performances: rather they have degenerated into a means whereby industry can set the standards it likes.

The Report’s section on international cooperation is also rendered extremely superficial by its failure to identify the key corporate and country interest groups which are obstructing progress on issues such as climate change prevention and realising a peace dividend after the Cold War. On the former, the Bank discusses the “strong economic rationale for adopting market-based instruments, such as tradable carbon emissions entitlements, to reduce greenhouse gas emissions” but fails to point out that vested interests such as oil and car companies, and countries which produce or consume large quantities of oil, are currently obstructing any moves to address climate change in an equitable manner. The Bank, apparently arguing that the political playing field is level, says that “government willingness” is required to create and regulate emissions entitlements, but fails to point out the main obstacles to an effective agreement on this issue which may have far more serious social and economic consequences than any of the other policy failures the Bank seeks to address.

Do What We Tell You

Despite the powerful evidence submitted to the Report’s team by the Japanese government on the inappropriateness of promoting a single, universal approach to “reform”, the Bank’s report gives space to one view only of what constitutes an effective market economy and an effective state.

The result is that the Bank’s approach to reform is only marginally less formulaic than its previous approaches and still involves a highly technocratic model for assessing what the Bank judges to be the capability of state institutions. Although the Bank argues “the state's role should be matched to its capability” and that “in the realm of liberalisation and privatisation, regulation and industrial policy, there is no one-size-fits-all formula”, its universalist model for assessing the capability of states means that very different countries will be prescribed the same set of “reforms” based on the Bank's assessment of the “weakness” or “strength” of their state institutions.

In “weak” states, for example, where “a mass of inefficient state enterprises blocks private dynamism entirely, even as it imposes an unmanageable fiscal and administrative burden on the rest of the public sector”, the Bank argues that there is no option but to introduce full-blown structural adjustment; “in such countries, the first step toward increasing the state’s effectiveness must be to reduce its reach”.

This, says the Report, should be achieved through privatisation and liberalisation which “are the appropriate priorities for countries whose governments have been overextended.” Countries with low state capability should not take on functions such as planning an activist industrial policy, says the Report, and should concentrate instead on basic functions: “the provision of pure public goods such as property rights, macroeconomic stability, control of infectious diseases, safe water, roads and protection of the environment.” Weak states should also be wary of taking on “intermediate” functions, “such as management of externalities (pollution, for example), regulation of monopolies and the provision of social insurance (pensions, unemployment benefits)” and should seek to “work in partnership with markets and civil society to ensure these public goods are provided.”
Critically, it is not citizens in the countries involved who will decide how "institutionally strong" is the state in which they live, nor on which actions states should concentrate their resources, but the World Bank.

No Self-Assessment

Throughout the Report the Bank tells others particularly developing country governments how to assess their performance and how to perform better. There is almost no critical assessment of the roles of international agencies, for example in pressing many countries to accept loans for economic reform programs which have then failed to meet their objectives, or of backing "predatory governments" such as Ceausescu's Romania, Pinochet's Chile and Mobutu's Zaire. Commenting on this "implicit blame-and-responsibility-lies-within-developing-countries stance", Mick Moore, Fellow of the Institute of Development Studies at the University of Sussex, quotes an unnamed colleague: "By supporting the denigration of public sector and the public services for so many years, the Bank has contributed to loss of morale and thus to the very problems that [the Report] now addresses. The least it could have done is to acknowledge that its own position and advice on these issues has changed substantially." Moore also points out that "inadequate attention" is paid in the Report to "the structural causes of poor governance" not least of which are the political forces that result in many governing elites in poorer countries having "more incentive to please external agents (other states, large transnational companies) than to build or maintain legitimacy among their own citizens." Such forces, argues Moore, include levels of development aid which, in many instances, exceed half the annual income of many governments "[shifting] de facto accountability from citizens to aid donors". Moore remarks: "One might justify this on the grounds that aid donors can do little, and developing countries should be told that these are their problems. If, however, one believes that aid is currently part of the problem but potentially part of the solution, the case for silence on this issue is less strong."321

Readers of the World Development Report are given the impression that the World Bank, with its huge research budget and unparalleled operational experience across the world, has neutrally presented the most important evidence and analytical tools for assessing the benefits of and best approaches to institutional reform. No mention is made, however, of the fact that 38 per cent of World Bank operations supporting privatisation and public sector reform are rated "unsatisfactory" according to the Bank's own internal classification. In 1996 the Bank's Private Sector Development Department was asked to write a report outlining the causes for this high failure rate. The report stated that "the causes of bad performance lie as much with Bank incentives, procedures and culture as with conditions within the recipient country". Unsatisfactory projects "tended to be quite obviously over-optimistic and ambitious" and staff preparing projects failed to analyse likely risks or set out contingency strategies. Staff action is explained as follows:

"pressure to lend; fear of offending the client; 'institutional optimism' a tendency to give the borrower a very large benefit of the doubt and to consistently regard the glass as half full; fear that a realistic and thus more modest project would be dismissed as too small, as having an inadequate impact; a sense of urgency based on the knowledge that fiscal resources diverted to inefficient Public Enterprises are no longer available to other critical sectors such as health and education; and, in general, a conviction on the part of many staff that the function of the Bank is to create conditions in which operations can go forward and succeed, not to 'sit around and wait'... The view stemmed both from a laudable desire to promote socio-economic development and from a more self-interested perception that a modicum of lending must take place to justify the institution and the job of the staff member."322

The Bank's 1997 World Development Report team, perhaps because they did not want to offend their operational colleagues in the Bank, did not address these issues of institutional failure within the Bank itself, and whether the Bank's interventions are actually helping poor people in developing countries, supposedly the Bank's key constituency. More fundamentally there is also no consideration in the report as to whether or not the Bank or other aid agencies are the appropriate institutions to carry out programmes designed to redefine the role of the state in societies where they have no democratic mandate and their actions are unaccountable.
Scapegoats and New Roles

Given such omissions, many have questioned the Bank’s motives for raising the issue of the state in such a prominent way. One interpretation (which some feel overemphasises the unity within the Bank and its ability to overcome internal policy splits) is that the Bank is following its own institutional imperatives; by focusing on the “ineffectiveness” of states, for example, it is able to use the state as whipping boy for failures that should properly be ascribed to market-led reforms. At the same time, it is tactically retreating from an outright public commitment to hardline neoliberalism, and is seeking to ensure that its role as a provider of North-South finance and advice will be maintained, even as the private sector is undertaking many of the projects it used to finance. The fear is that the Bank is seeking to carve out a new niche for itself as arbiter of the politics as well as economics of Southern states. This concern was clearly expressed by authors Susan George and Fabrizio Sabelli following the Bank’s 1992 report Governance and Development:

“The effect and the intention of structural adjustment has been to weaken the state and make sure that many of its traditional functions are taken over by outsiders, acting on behalf of the global market... The next logical step is the substitution of supranational for national authority, under the banner of governance.”

On this view, the World Development Report 1997 may plausibly be interpreted as a tentative attempt by the Bank to justify new roles as a supranational authority. Whether or not it succeeds will depend not on the strength of its theoretical models but on how the promotion of those models fares when confronted by ordinary people engaging as active citizens. In that respect, the 1997 World Development Report is to be welcomed though not perhaps for reasons which the Bank would endorse. By revealing a chink in the neoliberal armour, the Report provides social movements with political space that they might not otherwise have had. More than that, the Report offers social movements a clear view of how the Bank views the future. To be forewarned is to be forearmed.