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US hegemony and the World Bank: the fight over people and ideas

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ABSTRACT

Hegemony refers to a dominant group's ability to make others want the same thing as it wants for itself. It rests upon (1) a substantive pillar of belief that the system of rule created by the dominant group brings material and other benefits to all or most participants and that the feasible alternatives are worse, and (2) a procedural pillar of belief that the processes and procedures of the dominant system of rule are fair and appropriate and will be enforced on the dominant group as well as the subordinate group. But the requirements of (1) and (2) may undermine each other – this is the hegemon's dilemma. US intervention in multilateral organizations to strengthen the substantive pillar – the organizations' commitment to the idea of *mutual* benefits from free markets – may come at the expense of the procedural pillar, by breaking collectively legitimated rules of, for example, personnel selection or research independence; and vice versa. This paper explores US–World Bank relations in the context of US efforts to influence the statements made by the incumbents of two important ideas-controlling positions in the World Bank, the chief economist and the director of the *World Development Report*. It takes the firing of chief economist Joseph Stiglitz and the resignation of director of the *World Development Report 2000*, Ravi Kanbur, as case studies. It draws broader conclusions about how hegemony actually works, about the extent of World Bank autonomy, and about the debate on development agendas.

KEYWORDS

Hegemony; multilateralism; US Treasury; World Bank; IMF; finance; civil society.

As a republic founded on ideals the US is keenly aware of the impact of ideas on actions. Its foreign economic policy since at least the first Reagan administration in 1980 has aimed to convince the world of the truth of liberal free market ideology – in the words of Alan Greenspan, chairman of the Federal Reserve, 'markets are an expression of the deepest truths about human nature and . . ., as a result, they will ultimately be correct'.[2] The best society is therefore characterized by: (1) competition in free

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markets for goods, services and capital; (2) corporations managed so as to maximize shareholder value; (3) stock markets used for buying and selling corporate control; and (4) government intervention only in cases of obvious market failure (roads, defence, minimal social security safety nets).[3] These features ensure that the market principle of exit/switching/liquidity always dominates the organizational principle of voice/commitment/capacity building.

To the extent that powerful segments of national elites want these same things for themselves the US state can achieve its foreign economic policy objectives at lower cost than through materially based negotiation or coercion. Wide belief in the *mutual* benefits of free markets allows critics of free markets to be easily delegitimized, as defenders of special interests ('protectionists') at the expense of the general good.

During the Cold War, opening the rest of the world's markets had to be balanced against containing communism. With the end of the Cold War 'The successor to a doctrine of containment must be a *strategy of enlargement*, enlargement of the world's free community of market democracies', declared US national security advisor Anthony Lake.[4]

> During the Cold War, even children understood America's security mission: as they looked at those maps on their schoolroom walls, they knew we were trying to contain the creeping expansion of that big, red blob. Today . . . we might visualize our security mission as promoting the enlargement of the 'blue areas' of market democracies.

The multilateral economic organizations, above all the IMF and the World Bank, are important vehicles of the enlargement strategy. But here the US state faces a dilemma. On the one hand, it wishes to control these organizations so that they promote US foreign policy objectives. Therefore it has to ensure that people are appointed at the top of the organizations who will reliably explain to the world why all benefit from free markets in the longer run and why alternative institutional arrangements are not viable; or at least it has to ensure that people in prominent positions within them who say contrary things can be silenced or got rid of. On the other hand, the US needs to structure and operate within the organizations in a way that maintains the organizations' appearance of acting according to rules decided by the collective of member governments rather than according to discretionary US judgments. If not, the organizations lose the legitimacy of multilateralism and are less likely to achieve US objectives.[5]

The point can be made more generally. 'The supremacy of a social group manifests itself in two ways', Antonio Gramsci proposed, 'as 'domination' and as 'intellectual and moral leadership'. . . . A social group dominates antagonistic groups, which it tends to 'liquidate', or subjugate perhaps even by armed force; it leads kindred or allied groups'.[6] Hegemony, Gramsci said, is the additional power, beyond domination, that accrues to a dominant group by it convincing subordinate groups that its rule serves not only its own interests but also those of the subordinate groups. In other words, hegemony is soft power, the ability to make others want the same thing as yourself, as distinct from hard power, the ability to force others to give you what you want.

The convincing takes place through some combination of (1) belief that the system of rule created by the dominant group brings material and other benefits to all or most participants and that the feasible alternatives are worse, and (2) belief that the processes and procedures of the dominant system of rule are fair and appropriate and will be enforced on the dominant group as well as on the subordinate group. Hegemony, in other words, has two pillars, one substantive, the other procedural.

The hegemon's dilemma, then, is that intervention to strengthen the substantive pillar – the idea of mutual benefits from free markets – may come at the expense of the procedural pillar, by breaking collectively legitimated rules of, for example, personnel selection or research independence; and vice versa. Conversely, the multilateral organization's dilemma is that asserting legitimacy-protecting collective rules may cause the organization to lose support of the hegemon, while doing what the hegemon wants may entail breaking the collective rules.

This paper discusses the cases of two people who left the employment of the World Bank involuntarily in part because of US pressure on them and on the Bank's senior management for them to change their public statements. What do these cases tell us about how hegemony actually works?

THE US ROLE IN THE WORLD BANK

As its own bilateral aid programme has shrunk, the US has found the World Bank an especially useful instrument for projecting its influence in developing countries. The Bank is a source of funds to be offered to US friends or denied to US enemies, and a source of Anglo-American ideas about effective ways to organize an economy – and increasingly, a polity too.

The US in effect chooses the president of the Bank, and the president has always been a US citizen. It has by far the largest share of votes (17 percent as compared to number two Japan's 6 percent and number 3 Germany's 4.7 percent at end of fiscal 1997). On some constitutional issues it can exercise a veto, the only member state able to do so on its own. The US also makes the single biggest contribution to IDA, the Bank's soft-loan affiliate dedicated to lending to the poorest countries. The US Congress has to approve the normally three-yearly pledges to

IDA; and also the release of pledged money every year (something done by no other legislature amongst the Bank's members). The tri-annual pledge decision and the annual release decision give the Congress – any of the five congressional sub-committees that have authorizing or appropriating power over US contributions – and those who can influence the Congress, ample opportunities to impose conditions on the US's contribution to IDA and thereby on the Bank as a whole. Thus the US has several mechanisms of influence over the Bank not available to any other member.[7]

However, to remain within the zone of effectiveness – the zone where the Bank is reliably responsive to US foreign policy aims and US domestic constituency groups but is still seen as having enough independence to induce weaker states to listen seriously to it as an independent development advisor – the US often limits its direct interventions to negative power, to ensuring that the Bank does not do or say things contrary to US objectives, as distinct from instructing it more pro-actively. With the result that, as one observer noted, 'Any signal of displeasure by the U.S. executive director has an almost palpable impact on the Bank leadership and staff, whether the signal is an explicit complaint or simply the executive director's request for information on a problem'.[8]

In addition, American thinking about the roles of governments and markets sets the conceptual centre of gravity of Bank thinking, not European, Japanese, or developing country thinking.[9] The large majority of Bank economists have a post-graduate qualification from a North American university, whatever their nationality (as is indeed true of large numbers of the world's elite opinion leaders). The Bank's location in the heart of Washington DC, a convenient stone's throw from the White House, the Treasury, and the Washington think-tanks, plus the fact that its staff read US newspapers and watch American TV, plus the fact that English is its only language of business,[10] mean that American premises structure the very mindset with which most Bank staff approach development. Like Americans in general, the staff are likely to mistake what the sociologist Seymour Lipsett calls 'American exceptionalism' for 'American universalism'.[11]

Finance and civil society agendas

The Hindi proverb says, 'The elephant has two sets of teeth, one to eat, the other to show'. The Bank, too, has two sets of teeth, one for action, one for politics. As an action organization it helps countries to produce good quality and competitively priced investment proposals. As a political organization it talks in a way that reflects back and affirms many of the beliefs and demands of those whose support it needs, even though the beliefs and demands may be inconsistent.[12] All the more so as the

US and other major states have piled more demands on the Bank (also on the International Monetary Fund), rather than strengthen the capacity of other international organizations (such as the ILO, the United Nations Environment Program). They expect the Bank to address an expanding range of problems, including many of those in the heartland of other UN-family organizations, while constricting its budget to the point where it cannot possibly fulfill the tasks they require it to promise to fulfill.

On the one hand, the Bank must affirm a set of beliefs that might be called the 'Finance Ministry' agenda.[13] Derived from the liberal market propositions that the US has championed in its foreign economic policy, it says that poverty is reduced fastest by: (1) rapid elimination of macro imbalances, such as inflation, external deficits and fiscal shortfalls; (2) rapid privatization of state-owned enterprises; (3) internal financial liberalization; and above all (4) rapid opening of the economy to trade, by bringing down tariffs to very low levels and eliminating nontariff barriers; and (5) opening the economy to foreign (direct and portfolio) investment, by removing government discretion over the entry and exit of capital and guaranteeing that foreign capital will not be disadvantaged relative to national capital. These conditions maximize economic growth, and fast economic growth causes fast reduction in poverty, according to this agenda.

On the other hand, the Bank must also affirm what might be called the 'Civil Society' agenda. This is sceptical of all of the key propositions of the Finance agenda; and it stresses the importance for poverty reduction of empowering the poor (such as through their 'participation' in projects that affect them), providing economic security for all, reducing within-country income inequality, and using environmental protection as a criterion of investment choices.

The two agendas agree at a general level on such things as the importance of health, education, environment, and 'institutions'. But the agreement has come more through the Finance side making concessions to the Civil Society side than the other way around (on matters like participation, transparency). These concessions have made the Finance advocates even more determined to protect the core parts of their economic policies against continuing scepticism from the other side, notably the need for rapid removal of barriers to trade and foreign investment, and rapid privatization.

The Finance agenda has been pushed most forcefully by the US Treasury, backed by the finance ministries of the other rich countries; but the agenda is also advocated by the finance ministries of many developing countries – India and South Africa being prominent examples. The Civil Society agenda has been pushed most forcefully by US nongovernmental organizations (NGOs), USAID, and the US Congress, backed by NGOs and aid agencies of other rich countries; and parts of it have been advocated by NGOs in developing countries as well, though their governments have tended to range from unenthusiastic to hostile.

Both agendas, as complexes of ideas and actors that the Bank must affirm in order to survive, date from the 1980s, Finance from the early 1980s, Civil Society from the mid to late 1980s. Since then Bank managers have had the headache of handling the inconsistencies between them.

The controllers of ideas

From this point of view the chief economist at the World Bank is a critical position, because the incumbent can shape the content of what the Bank tells the world about how countries should reduce poverty and how countries are actually performing. He therefore has an important role in the Bank's reflecting back to the agents of these agendas what they want to hear. He can shape what research is done and by whom, what evidence is accepted, what conclusions are drawn, how much and how long the results are scrutinized internally before being published, how the conclusions are advertised, what follow-up research is undertaken, and what is done to inject the findings into operational work.

Ever since the US began, in the early 1980s, to assert its neoliberal foreign economic policy unilaterally in multilateral organizations, and since the Bank at the same time became involved not just in projects but in structural adjustment of whole economies, the US Treasury has been keenly interested in the appointment of the chief economist. It has exercised a *de facto* veto.[14]

The director of the *World Development Report* is another important ideas-controlling position. The *World Development Report* (WDR), published annually, is the Bank's flagship publication. Each number takes a theme and presents the Bank's conclusions on it, running to 200–300 pages. The recent WDRs have been about such subjects as *Attacking Poverty* (2000/01), *Entering the 21st Century* (1999/2000), *Knowledge for Development* (1998/99), and *The State in a Changing World* (1997).[15]

The WDR is both a research-based document and a political document, in the sense that as the Bank's flagship its message must reflect back the ideological preferences of key constituencies and not offend them too much, but the message must also be backed by empirical evidence and made to look 'technical'.

The director of each WDR is chosen by the chief economist with the approval of the president. The director and chief economist choose a team of 5–10 full-time authorial staff, most of them Bank staff members, plus consultants plus administrators. They normally have about 12 months to prepare the report. Then they disband, as a new team is getting into gear for the next WDR. The Bank is careful to project an image of WDR independence, since the message is meant to be based on empirical evidence and the best technical research.[16] The drafts are circulated for internal comment, and member governments also get to comment. Over the 1990s increasingly extensive consultation exercises have been held with NGOs as NGOs have demonstrated their power to affect the Bank's survival.

Now we consider two recent cases where a chief economist and the director of a *World Development Report* said things too favourable to the Civil Society agenda and too hostile to the Finance agenda, thereby incurring the wrath of the US Treasury. Partly for this reason they left the Bank in a blaze of publicity that the Bank would much prefer not to have had. The first case concerns Joseph Stiglitz, chief economist from 1996 to 1999. The second concerns Ravi Kanbur, director of the *World Development Report 2000.* For all the media attention at the time their cases constitute minor events in the wider scheme of things. But often in minor events can be seen the texture of power. As Sherlock Holmes said to Watson, 'It has long been an axiom of mine that the little things are infinitely the most important'.[17]

STIGLITZ'S FORCED RESIGNATION

President James Wolfensohn appointed Joseph Stiglitz as chief economist in late 1996. Stiglitz was one of the most prestigious American economists for his contributions to the economics of information, for which he was widely seen as a Nobel Prize winner-in-waiting.[18] He was also close to certain Democratic Party leaders. During the first Clinton administration he had been a thorn in Treasury's side as chairman of the Council of Economic Advisors. Treasury endorsed his move to the Bank to get him further away. But in his new position Stiglitz began to criticize the IMF, especially its handling of the Asian crisis in 1997 and 1998, at first privately, then publicly. He even travelled to Addis Ababa to advise the Ethiopian government how to resist IMF demands that it open up its financial system. Since the IMF strategy in Ethiopia was being decided in close consort with the US Treasury, Stiglitz was also criticizing the Treasury and its Finance agenda. Deputy Treasury Secretary Lawrence Summers tried to get Wolfensohn to rein him in. But Wolfensohn was hesitant to do so, not only because of Stiglitz's prestige in the outside world and his reputation as an unshutupable *enfant terrible*, but also because he had sympathy for much of what Stiglitz was saying.[19]

The situation changed as the decision-time for Wolfensohn's second presidential term drew near in 1999. Wolfensohn badly wanted a second term, not least to consolidate his claim to the Nobel Peace Prize. By then Lawrence Summers was Treasury Secretary, the most powerful figure in the Clinton Cabinet by far. Summers had the main voice in the decision about Wolfensohn's second term. The assertive and intrusive Summers, himself a former chief economist of the Bank, made no secret that Wolfensohn was not his choice as president the first time around, and from the beginning had little compunction about telling Wolfensohn what to do. Staff around Wolfensohn learned that a telephone call from Summers was likely to plunge their boss into a foul mood, especially because in the end Wolfensohn, no less pig-headed, has not often felt able to tell Summers when to get lost.[20]

In essence, Summers made his support for Wolfensohn's second term conditional on Stiglitz's non-renewal. Wolfensohn agreed. Stiglitz resigned a month before his term expired so as to go out standing rather than on his back.

But Stiglitz also had many opponents inside the Bank, including some of his own staff of researchers, even some of his immediate managers. Some shared the ideological disposition of the IMF and the Treasury. Riding high in the Bank before Stiglitz, they did not take kindly to his criticisms. Even those who did not object to his views on the limitations of free markets said he was treating the Bank like a travel agency, neglecting his internal roles of mentoring his staff, debating economic strategy internally, and making strategic decisions about the research complex. He often forgot to thank those whom he left carrying the can. The staff reciprocated, giving him about the lowest evaluations of all senior Bank staff in the Staff Attitude Survey of 1999; he was the 'caboose'. At his farewell Wolfensohn paid barbed tribute to him, declaring himself to be a great admirer . . . of 'someone I understand I have met in the past few years – when he wasn't traveling'.[21]

The president announced Stiglitz's resignation in November 1999. But the president also announced that Stiglitz would stay on as 'special advisor to the president', and would chair the search committee for a successor. This enabled Stiglitz to keep his well-appointed office and two secretaries.

Stiglitz explained his resignation as chief economist, saying 'it became very clear to me that working from the inside was not leading to responses at the speed at which responses were needed. And when dealing with policies as misguided as I believe these policies were, you have to either speak out or resign . . . Rather than muzzle myself, or be muzzled, I decided to leave.'[22]

Then in April 2000 Stiglitz published an article in the *New Republic*, called 'What I learned at the world crisis'. It appeared not coincidentally one week before the Spring Meetings of the Bank and the Fund, at which campaigners were planning anti-Bank-Fund demonstrations. In best Stiglitz knock-about style it said,

> Next week's meeting of the International Monetary Fund will bring to Washington, D.C., many of the same demonstrators who trashed the World Trade Organization in Seattle last fall. They'll say the IMF is arrogant. They'll say the IMF doesn't really listen to the developing countries it is supposed to help. They'll say the IMF is secretive and insulated from democratic accountability. They'll say the IMF's economic 'remedies' often make things worse – turning slowdowns into recessions and recessions into depressions.
>
> And they'll have a point. I was chief economist at the World Bank from 1996 until last November, during the gravest global economic crisis in a half-century. I saw how the IMF, in tandem with the U.S. Treasury Department, responded. And I was appalled [and he went on to give a lengthy account of why].'[23]

Larry Summers was close to apoplexy. Stiglitz's article represented about as big a failure of the Bank – a prominent person affiliated to the Bank – to affirm the agenda of its dominant member as could be. Summers rang Wolfensohn and spoke to him in a way that Wolfensohn was spoken to by few others. He told him that all connections between Stiglitz and the Bank had to be severed. Wolfensohn called Stiglitz to his office. In a tense meeting Wolfensohn told him he was no longer a special advisor and no longer welcome in the Bank. Stiglitz pointed out that the 'optics' would not be good if he were fired so soon after the *New Republic* article. Wolfensohn threatened that if the story leaked he would call a press conference and denounce him for office improprieties. 'This is black-mail', Stiglitz shot back. Meanwhile, Stanley Fischer, deputy managing director of the Fund and Summers' ally and Stiglitz's opponent, called a special staff meeting to discuss how the Fund was going to respond to Stiglitz's article. He informed the gathering that Wolfensohn had agreed to fire Stiglitz, to the delight of all. Meanwhile again, the Bank's External Affairs department told the press and anyone in the Bank who would listen that Stiglitz had not been fired, his post had merely been abolished.

KANBUR'S RESIGNATION: A BRIDGE TOO FAR

Stiglitz brought in Ravi Kanbur, a distinguished professor of development economics, to lead the team writing the *World Development Report 2000* on 'Attacking Poverty'. This was always going to be a sensitive subject, because poverty reduction is the very core of the Bank's mission and because it is the focus of the most passionate debates in the whole of development studies. The agendas of the parties on whom the Bank depends for support have sharply inconsistent views on it, as we saw.

Kanbur was chosen for several reasons. He had been a Bank insider (including chief economist of the Africa region), but was now a Cornell

University professor – this plus his identity as a British-educated Indian helped secure the WDR's reputation as independent. He was known to be broadly sympathetic to the civil society views about development sketched by Wolfensohn in the Comprehensive Development Framework and elaborated by Stiglitz and his advisors in several papers (referred to earlier). This mattered because most development economists in the Anglo-American tradition are not sympathetic. Several of them, including Jagdish Bhagwati and T.N. Srinivasan, had argued that Wolfensohn's and Stiglitz's views, if translated into Bank policy, would encourage countries to adopt ostensibly 'anti-poverty' measures that would slow growth and in turn slow poverty reduction, as in India in the 1950s to the 1970s.

Fight over the draft

By January 2000 the WDR team had a draft ready to be circulated (the 'red cover' draft). It began with the proposition that economic growth is central. 'Growth is the engine of poverty reduction', it said. But, it continued, we know this. In this report we want to show what is less well understood – other things are also central ingredients of a poverty reduction strategy. How do we know? Because we see a wide range of results in terms of poverty reduction when we hold growth performance constant. What else matters? We call them empowerment, security, and opportunity. The red cover draft discussed them in that order, with the more growth-oriented 'opportunity' discussed last in order to highlight the less familiar first two. ('Red' refers to a late stage in a sequence of drafts; but critics remarked that the other meaning also applied in this case.) The draft also emphasized that liberalizing the economy and opening it to free international movements of goods, services and capital did not automatically help the poor; in fact it sometimes worsened their condition. In short, the red cover draft supported the Civil Society agenda more than the Finance agenda.

The report drew extensively on the 'Consultations with the Poor' exercise that the Bank has been running since 1998, a combination of new and existing participatory studies involving some 60,000 people in 60 countries. Drafts were reviewed via an intensive and independently moderated electronic consultation exercise involving 1,523 subscribers in 80 countries, a far bigger scale than for any other *World Development Report*.[24] Also, Kanbur travelled the world getting feedback from governments and civil society both before and after the red cover draft. The Bank has been widely praised for having engaged alternative perspectives. People came away from the face-to-face meetings with Kanbur exclaiming, 'He came all the way here to talk to us about the WDR!'.

The red cover draft provoked strong opposition inside and outside the Bank. Many critics said it short-changed economic growth and gave far too much attention to income inequality. It even said that world income inequality was widening and that this widening was bad – not good – for growth. This, said the critics, was a 'politically biased' finding, the result of poor econometrics. It has long been an article of faith among many mainstream economists either that income distribution is generally becoming more equal, or that income inequality is good for growth because it heightens incentives to effort and risk-taking.

As for the red cover's talk of openness not necessarily being good for poverty reduction, this was flatly unacceptable, said the critics. Clarity of message is extremely important, they said. The Bank's message is that openness is good for the poor. The message should not be blurred with academic-style qualifications.

Another controversial part of the argument was the section on democracy and the empowerment of the poor – on how to create or scale up organizations of the poor, including networks, cooperatives, unions and the like so as to articulate their interests in the political and market realms, and how to make state organizations more responsive to citizens.[25] Initially the critics said, 'Why is this stuff being given priority over growth?', but later (especially once the US Treasury weighed in) the cry grew to 'get rid of this stuff', 'these chapters pander to noisy and nosy NGOs', and 'the Bank should not be in the business of empowerment'. The security/safety-nets material was also controversial for its argument that in the context of freeing up markets by privatizing, removing trade protection, and the like, the *first* thing to do is to create effective safety nets, then do the market reforms; because without safety nets market reforms will create losers who have nothing to fall back on. Many critics said, 'Of course we need social safety-nets, but they have to be built simultaneously with market reforms, not made a condition of market reforms'.

From Yale, T. N. Srinivasan launched a critique of the report's conceptual foundations. 'Security, opportunity and empowerment could at best be termed as diagnostics and at worst as three symptoms of the disease or syndrome of poverty, but they certainly do not provide an analytical engine', he said. He also said that the report lacked causal analysis, taking cross-country regressions too literally as the basis for policy judgments. From Princeton Angus Deaton sent in scathing remarks. Some of the Bank's leading macro economists agreed with Srinivasan and other external critics that the draft short-changed economic growth and open markets, despite the opening declaration of growth being the engine of poverty reduction.[26]

Of the member governments' comments, those from the US Treasury called for more emphasis on the need for faster economic growth, freer markets as the route to higher economic growth, less talk of widening world income distribution, and less emphasis on widening income distribution being bad for growth. Treasury Secretary Summers said in a speech at about this time that discussing poverty reduction without emphasizing economic growth and open markets was like Hamlet without the prince. In oral comments on the January draft US officials made statements like, 'Give them [NGOs, trade unionists and the like] an inch of nuance and they'll take a mile of protection'. At the same time, however, Treasury also called for more stress on core labour standards, leading one WDR insider to characterize the Treasury message as 'Growth, growth, growth, plus labor standards'.

The Treasury's comments read like marching orders, in contrast to those from other governments.[27] The Treasury's tone was probably stiffened by the anti-WTO, anti-globalization demonstrations in Seattle in November 1999. The Treasury saw Seattle as a worrying unequal alliance between well-organized, traditional forces of western protectionism and naive pro-development NGOs. The apparent success of the alliance in obstructing the conference – and the fact that President Clinton chose not to take on the forces of US protectionism in his conference address in view of the impending US elections – made the Treasury more anxious to push the case for open markets. [28]

Kanbur explained to some members of the team what was going on. He put his hand on the desk and said (to paraphrase), 'Suppose this is where US officials 'really' believe the truth to lie. The NGOs, trade unionists and the like argue that the truth is over here, far to the left. The US is saying that you – the World Bank, the WDR – have to position yourself over here, far to the right, in order that, in the end, the middle ground coincides with the truth'. Kanbur and the team saw themselves as serious social scientists, and were dismayed to find themselves expected to play this game – all the while being assured that they were of course completely independent.

Kanbur conceded ground to the critics by moving the 'Opportunity' section into first place. This could be justified along the lines of, 'We'll deal with what we know first, then we'll get into the interesting stuff.' And in his 'Overview' to the draft of the green cover draft (the next after the red cover) he made substantive changes in emphasis in the 'growth and openness first' direction. But then he himself considered he had gone too far and tried to pull it back closer to the argument of the January version. The acting chief economist (Stiglitz having gone), anxious to accommodate the Treasury and the Bank's macro economists, expressed his unease at Kanbur's wish to go back towards the January version. Kanbur wondered then about resigning but was persuaded not to.

Kanbur attended a review meeting with the president and the managing directors in May 2000, where he was surprised that the president expressed sympathy with the 'growth and openness first' view. A few days later he met with a couple of the managing directors. One of them, closest of all to the president, summarized the thrusts of the Treasury and other critics, and urged him to redraft.

Meanwhile Kanbur was working on a 10-page synthesis of the results of the unprecedentedly extensive electronic and in-person consultations with civil society groups around the world.[29] It is not hard to imagine that he felt between a rock and a hard place – the Bank people and the US Treasury were pressing him to change the argument that seemed to him to emerge from the consultations, and asking him to behave in a way that violated the pledge he had given to the civil society groups to treat them fairly and transparently.

Abridge too far

Kanbur concluded that he and the WDR were on a slippery slope. They faced insistent pressure from both the US Treasury and some powerful Bank economists, on the one hand. They could not count on staunch support from Stiglitz's newly appointed successor.[30] They seemed to have less support from the president than they thought. The choice was to push the WDR even further from the January version in the direction of the Treasury's Finance agenda, or to protect the central argument of the January version as amended after the world-wide consultations – but then have the Bank more or less subtly dissociate itself from it as 'Kanbur's report' and sweep it under the carpet. If he resigned the publicity would force the Bank to declare 'ownership' of the WDR as the work of an independent team of social scientists, not poodles, lackeys, or toadies of the Treasury. 'We don't know why he resigned, we gave him complete independence, and to show our commitment to the process and our independence from the Treasury we will keep the main themes the same, though we will of course improve the quality.'

Kanbur left the Bank after the meeting with the two managing directors, returned the next day to collect a few belongings, and vanished. He distributed his 10-page synthesis of the consultation exercise to the participants on 19 May. He resigned on 25 May.[31] Efforts were made to persuade him to withdraw his resignation, including by the president, to no avail. His deputy took over as director.

A couple of days after Kanbur announced his resignation internally the acting chief economist called the WDR team together. He told them that senior management was fully behind them, and that if they needed anything in order to complete the work they had only to ask. His solicitousness suggested that senior management was worried that the rest of the team might resign too. He then invited questions. Several people expressed their view that Kanbur had resigned because of intense pressure to change the argument, and sought assurance from the acting chief economist that the argument would not now be further changed. The acting chief economist gave them the assurance, but they left him in no doubt, or so they thought, that they were wary. The next day he sent them a letter – probably blind-copied to senior management – thanking them for the 'complete support' they had shown for the task of completing the WDR. The letter reflected none of their concerns. The team informed the acting director that the letter was unacceptable and asked her to take the matter up with the acting chief economist. No revised letter came.

The top of the research hierarchy told senior management and Executive Directors privately that Kanbur had resigned because he was exhausted and had not 'been himself', the pressure had just been too much for him. But three weeks later, when the Bank got word that the story was about to hit the press, External Affairs called the team to an emergency meeting about how to pitch the resignation. 'The atmosphere', according to a participant, 'was siege-like, like a war room.' The meeting began with the staff members from External Affairs discussing among themselves, the WDR team listening. They had learned, they said, that Kanbur had resigned because he felt under pressure to change the substance of the argument. But they couldn't say this publicly because it would throw doubt on the Bank's declaration that the WDR was an independent piece of research. How else could they present it? They converged on the idea that Kanbur resigned out of disagreement with the change in the order of chapters – from empowerment, security and opportunity, to opportunity, security, and empowerment. At this point one of the WDR members spoke up. No one in the world would believe the Bank that Kanbur had resigned because he did not like the order of the chapters, he exclaimed. In the end the External Affairs people decided to say that Kanbur resigned because he had some reservations about the main messages that were likely to emerge in the final report (without giving any idea why he had these reservations), but that his reservations were unfounded because, in the words of the press release, 'Ravi was given repeated assurances that the WDR would be an objective, analytical report, as it always has been'.[32] None of the External Affairs people seemed to realize the inconsistency: if Kanbur was the director, and if the WDR was independent, how come he resigned because he had reservations about the messages that would emerge in the final report – of which he was the allegedly independent director?

When the story broke Kanbur refused all press interviews.[33] He did not want to dissociate himself from the Bank or the WDR, because this might legitimize the Bank in making further pro-Finance revisions to the draft. Even some people sympathetic to Kanbur were puzzled as to his larger strategy, considering that he must have known from the start

– he had spent many years as a Bank staff member and had even worked on a previous WDR – that the margin for making an independent argument in the WDR was narrow, whatever the Bank's declarations to the contrary.

The politics of inconsistency

In the end the report proceeded with the messages of the January 2000 version for the most part intact. The resignation created a dramatic crisis in response to which the WDR team and the new chief economist dug in their heels to assert the Bank's independence and limit the drift in the Treasury's direction.[34]

There were three main substantive changes. First, a chapter was added near the beginning to show that growth was good for poverty reduction, and this chapter also discussed income inequality. Second, the chapter on market reforms ('Making markets work for the poor') was given a stronger Finance twist. For example, it said that social safety nets should be provided simultaneously with market reforms (not as a precondition) – a change which provides more excuse for countries to do the market reforms and skip the safety nets; and in other ways it softened the January draft's emphasis on the hazards of quick market liberalization. Third, it cut and softened the January version's section on world capital markets. The earlier version blamed the Asian crisis partly on rapid opening of financial markets and spoke favourably of both the Malaysian and Chilean experiences of capital controls; it even advocated capital controls as a normal instrument of developing country economic management. The final version shrunk the discussion, dropped Malaysia's experience, and watered the message down to the need for a 'cautious approach' to liberalizing financial markets, with capital controls only as transitional measures en route to free capital markets. This change was dear to Treasury's heart, for the Clinton Treasury gave top priority to building free capital markets into the basic architecture of the world economy.[35]

These several changes certainly pushed the report in the direction of the Treasury's Finance agenda, but did not remove the central Civil Society messages of the January version. The Bank could not remove the Civil Society messages, not only because that would throw into doubt the Bank's claim that the WDR was based on independent research, but also because to do so would provoke the ire of NGOs around the world who had been involved in the elaborate consultation process.

Instead, the changes did just what the Bank and Treasury had earlier said the WDR must *not* do: they blurred the message. The new sections on growth and openness were not well reconciled with the other sections. In the new political situation after Kanbur's resignation the critics felt empowered to insert sentences which spun the message in the direction of growth, openness, and optimism. The much revised box 3.3 on 'Divergence and worldwide income inequality', for example, says that 'income inequality between countries has increased sharply over the past 40 years', followed a few sentences later by the much more cautious, 'there have been some increases in worldwide inequality between individuals in past decades'. The box concludes on an upbeat by saying, 'the increases in worldwide inequality in recent years are small relative to the much larger increases that occurred during the 19th century' – ignoring the earlier caution that data about the 19th century are subject to large margins of error and ignoring the accompanying graph which shows a much faster rise in world inequality in recent years than anything in the 19th century according to the results of recent research from within the Bank itself.[36]

The critics concentrated their attention on the places that really mattered – the WDR stand-alone summary document, the press releases, and within the text itself the beginning and ending of chapters. They left behind many inconsistencies with the rest of the text.[37] But the inconsistencies only come to light on careful reading, and most policy-makers do not read *World Development Reports* carefully.

At the press conference to mark the release of the report a journalist asked the new chief economist whether he thought Kanbur had good reasons to resign.[38] Chief Economist Nicolas Stern said no, Kanbur in May had made a forecast 'that there were further changes required of the team, or that they would be under pressure to make further changes. That forecast turned out to be wrong. Now economists make forecasts that turn out to be wrong all the time, and we have to make decisions on that basis. But I think in retrospect it was a wrong forecast, and therefore, I think there was no need for him to resign.' Stern's answer occludes the obvious counterfactual point that Kanbur's forecast may have been wrong *because* he resigned – though as we have just seen, the forecast was only partially wrong even with his resignation, because the Civil Society messages of the January version were indeed diluted by the addition of new Finance agenda messages.

One would need to know a lot about the back-channel communications between people in the Treasury and people in the Bank to know the full extent of the US role. Treasury people claim their role was minimal beyond putting their point of view on the table, like many other member governments, and cite as evidence the fact that Treasury's written comments came in quite late in the process. But even without knowing the back-channel communications, several points suggest something more. First, the 'marching orders' tone of Treasury's comments, like no others; second, their timing, right at the height of the debate, the time most effective for tipping the scales; and third, the close correspondence between the revisions wanted by the managing director and the acting chief economist, and those wanted by the US Treasury.[39]

CONCLUSIONS

I began with the tension between the hegemonic state's substantive need for foreign policy levers, including multilateral organizations, on the one hand, and its need to be seen to be acting with procedural 'appropriateness' in multilateral governance structures, on the other. Without the appearance of procedural appropriateness hegemony would give way to domination, and by and large hegemony is more efficient for the hegemon. But respect for procedures may mean putting up with messages coming out of multilateral organizations that are not consistent with the hegemon's foreign policy objectives. Acting to make the messages consistent with the hegemon's foreign policy objectives may entail procedurally inappropriate behaviour. This is the hegemon's dilemma in multilateral organizations.

The Bank's autonomy and dependence

In the cases considered here the US Treasury intervened in order to prevent the Bank – or two highly visible people of the Bank – from saying things that ran against its own message about how other countries should develop. The Treasury was clearly unhappy with Stiglitz's statements (as was the IMF). But it was not able to fire him directly. It waited till it could use its (procedurally appropriate) veto over Wolfensohn's second term as the means of getting rid of him, by making Wolfensohn (who had the authority to renew or not renew Stiglitz as chief economist) agree to non-renewal as a covert condition of his own reappointment; and later, provoked by Stiglitz's *New Republic* broadside, it ensured that Wolfensohn fired him as his special advisor and removed him completely from the Bank. The Treasury was also clearly unhappy with the January 2000 draft of the WDR. Treasury's pressure on the draft – and the president's and managing director's apparent acceptance of the Treasury critique – was construed by Kanbur to be sufficiently potent and inappropriate as to prompt him to resign.

On the other hand these cases show a more complicated situation than 'the US pulls the lever and the Bank responds', as though the Bank were an arm of the US government.

First, the US intervention was kept covert, and only known for sure to the parties directly involved. By the standards of other US interventions in the Bank, these cases were subtle and mild. Some of the Executive Directors (the representatives of the member states on the board of directors) grumbled at the American role, but in a spirit of 'the Americans up to their usual tricks'. Some of the staff – especially the staff of the WDR – thought the American intervention offensive and their senior management weak, but then they did not really count. The most damage came from the press reports, which played up the US role as inappropriate – hence the 'siege-like' atmosphere in the meeting between External Affairs and the WDR team as they considered how to explain Kanbur's resignation in terms that did not involve US pressure. By and large, though, US intervention worked well from the US standpoint: it secured the objectives (Stiglitz fired, the WDR rebalanced) with a sufficient gloss of procedurally appropriate behaviour over the covertly inappropriate behavior that the procedural pillar of US hegemony was minimally compromised.

Second, the cases also show the limits of US influence. The US had a lot to do with the fact that Stiglitz had no chance of being renewed as chief economist, but Stiglitz's chances were in any case low because of the disgruntlement of top managers and many of his own staff, not all of it informed by ideology. Wolfensohn then appointed him as a special advisor and gave him a key role in finding a successor, which Treasury cannot have welcomed. Only after Stiglitz made a flagrant attack on the IMF and the Treasury did both Treasury and IMF demand that Wolfensohn fire him as special advisor – and Wolfensohn obliged, even though by then safely reappointed for a second term.

Kanbur's appointment also indicates Bank independence, for he was guaranteed to steer the WDR on poverty in a direction that the Treasury did not like. Kanbur resigned as director of the WDR rather than revise the draft in line with Treasury demands, but the effect was to embarrass the senior management into committing itself to keep the core Civil Society messages intact – precisely so that the Bank would not be seen to be the Treasury's lackey.

On the other hand, the final version did add other core messages from the Finance agenda, as the Treasury wanted, in the name of the WDR needing to be consistent with the Bank's central message about how to get development.

The net result of the conflicting norms for (a) the Bank to speak with a single voice, and (b) the WDR to be independent, was substantial inconsistency or lack of integration in the final version. But the inconsistencies and dis-integrations would be noticed only by those who read the report carefully. The Finance agenda messages came particularly in the parts that would be noticed by readers in a hurry – in the stand-alone summary, in the first chapters, and at the beginning and end of the other chapters.

The Bank's independence is also seen in the fact that Jeffrey Sachs was indeed invited to the Bank's Annual Conference on Development Economics over Summers' objections (though the posters advertising his presence were taken down in response to Summers' fulminations). And it is seen, ironically, in the fact that Summers and the Treasury wanted the WDR to support the ILO's labour standards about unions and collective bargaining, but the Bank could not bring itself to do so. In this respect the Bank appeared more neo-liberal than the Treasury.[40]

The central tension in the making of WDR2000 – to what extent was it the work of a group of independent researchers, to what extent was it the voice piece of the Bank – has run through all the WDRs. The Bank has never confronted the tension by making an explicit statement of what the World Development Report is. In practice, the content of each report emerges as a contest between the authors, thinking of themselves as independent researchers, and senior management and External Affairs, thinking of it as independent so long as it says what they want it to say. The point is unwittingly clear in the Bank's press statement about Kanbur's resignation: 'The World Bank is committed to both open debate and an internal process that maintains the integrity of the WDR, in which the final product reflects the best evidence and judgement of the staff, as well as the wide range of external commentary. The report will in the end be a product of the World Bank approved by its President and by incoming Chief Economist Nicholas Stern.'

Ideological convergence

We have seen that the US Treasury does not always get the Bank to do what it wants. Also, the Bank may do and say what the Treasury wants for reasons beyond the fact that Treasury wants it. Both organizations, after all, are committed to the same broad neo-liberal ideology and to the same notion of what constitutes good technical economics research.

The Development Economics complex at the Bank defends its researchers' right to reach their own results as a matter of principle. But you do not get to be a Bank research economist without having demonstrated your commitment to the presumptions of neo-liberalism and to the analytical techniques of Anglo–American economics. Once there, you know that if you come up with pro-free-market findings you can send off your paper to *The Economist* or present it at an IMF seminar straight away without anybody else checking the results; whereas if you come up with contrary results you will be required by your managers to check them out with a panel of colleagues who may be asked to undertake independent replication while the paper is kept under internal wraps. The differential response sends a message to the researchers who are looking for cues as to how to come along and get along in the Bank.

Not long after the Kanbur case a reporter rang up the acting chief economist to ask him to explain why the Development Economics complex had two staff papers on its web site which seemed to contradict each other on the link between growth and poverty reduction. Instead of saying, 'We are a research center and we encourage people to pursue research findings where ever they lead to', the acting chief economist said, worried, that he would look into it. He called a meeting of his managers and advisors, and told them that the Bank must not be seen to be speaking in different voices. 'Given the vulnerability of the Bank to public criticism', he said, 'we must be very careful' [about, for example, what goes up on our web site]. Much the same mechanisms of self-censorship are at work in the Treasury. The result is strong overlap of views without the Treasury exerting direct influence.

Moreover, the longer term 'game' between Treasury and the Bank pushes in the same direction. Having been bruised by bad publicity around the Stiglitz affair and the Kanbur affair, the Bank's senior managers are likely to be more cautious about offending the US in future interactions, because they know how offending the Treasury in one context spills over into costs to the Bank in other contexts. As they become more cautious about giving offence, US hegemony is that much less challenged.

The antibodies work over the long term through both mechanisms – senior managers' concerns to limit upsets with the Treasury, and researchers' awareness that pro-free-market findings are better received. Those who dispute the economic policies of the Finance agenda – such as those who challenge the Bank's advocacy of funded pension schemes whereby individuals contribute to a pension fund which invests in securities, and they receive a pension linked to the performance of the stock market – are kept on the margins; those who advocate policies that fit the liberal free market ideology described earlier have a better chance of reaching the commanding heights.[41]

The benefits of US Treasury influence on WDR 2000

The question of how the US Treasury influences the Bank should be kept separate from the question of whether its influence is substantively desirable. In the immediate context of the WDR 2000 it can be argued that the WDR was indeed improved by Treasury influence to the extent that the WDR ended up giving more emphasis to economic growth and less emphasis to parts of the Civil Society agenda. Let me explain.

First, developing countries have been experiencing a severe but little noticed long-term growth slowdown. Ever since 1960 average incomes in developing countries have grown more slowly than OECD incomes in most years, and world income inequality has widened. Indeed, the median rate of growth in developing countries' average incomes between 1980 and 1998 was 0.0 percent.[42] The growth crisis should be right at the forefront of the development debate, as also the steps that OECD countries should take to moderate it, including lifting US union-sponsored protectionism. But the swelling phallanx of mostly western-based NGOs is not likely to place it there, because it has given little analytical attention to economic growth in developing country conditions.[43]

Second, there is not much evidence that economic growth and productivity are raised by changes in decision-making which give greater power to local groups. The empowerment movement assumes too readily that benevolent paternalism is always wicked and that giving power to the poor will result in cooperative thriving rather than looting as shamelessly as the other lot.

Third, the ascendancy of governance, participation and environmental protection in the development agenda has tended to eclipse the centrality of the question, 'How to increase real economic rates of return in agriculture, industry and services, and how to bring scientific research to bear on this task?' One sees the eclipse in the World Bank's Comprehensive Development Framework, which shifts attention from growth towards non-income aspects of poverty and legitimates the Bank's retreat from hard-nosed technical subjects like industrial policy and irrigation investment towards soft-nosed education, health, participation, legal reform and cultural properties.[44]

While the Treasury role in getting the WDR2000 to give more weight to economic growth was surely useful, this is not to endorse the Finance agenda that the Treasury sought to impose. My own preference, it will be clear, is for a real-sector/industrial policy/social democratic agenda. Moreover, one should relish the irony in the Treasury's upset at the January draft's embrace of the Civil Society agenda. For it was the US Treasury, above all, that as the Cold War wound down and the US's need to use the Bank for geopolitical objectives faded, most pressed the Bank to open itself to NGO influence – not because it particularly liked NGOs or their governance and environmental arguments but because it needed to build up credit with them and with the Congress in order to get their support or acquiescence on the things that really did matter to the Treasury, including free capital mobility.

The benefits of multilateralism

The specific case of the WDR 2000 aside, the Bank would be a better development agency if the US – both the US state and US NGOs – had less control over it, if people from other states, with knowledge of other (social democratic, developmental state) forms of capitalism had more influence over what the Bank says and does, causing the Bank to affirm a wider range of institutional ecologies. We know from Japan and continental Europe that efficiency, catch-up, innovation and well-being can be promoted not only by the market principle of exit/switching/liquidity but also, in some spheres, by the organizational principle of voice/commitment/capacity-building. In a social democratic ideology, free markets in labour are constrained by the need to protect organizational loyalties, corporations are managed with responsibilities to employees and other stakeholders as well as shareholders, they are not bought and sold on the stock market, and the public sector expresses the principle of mutual responsibility through public supervision of health care, education and collective social insurance.[45] Certainly social democratic systems are on the defensive at the start of the present century. They are under question from segments of national elites (this being the US's return on generous scholarship funding for foreign students in American graduate schools), and under pressure from capital flows out of Europe. The US Treasury declares that capital will continue to flow out and the Euro will continue to fall 'unless and until Europe shows more commitment to overhauling its restrictive labour market and generous welfare systems which are seen as a barrier to growth', in effect setting liberal free market conditionalities on US cooperation on behalf of the Euro.[46] But political economies with social democratic characteristics clearly can be effective vehicles of late development. And the world economy would be less fragile if it contained a broader range of capitalist forms.[47]

One test of the Bank's independence from US views would be the appointment of a chief economist and associated staff who champion these arguments. However, the only major way to moderate US hegemony over the Bank is to shift its headquarters – or some important headquarters functions – out of the US. Constitutionally the European states have the votes to do this. A World Bank with important staff and headquarters functions in, say, Berlin or Paris or Ankara (but not London) might be suffused by the more diverse European views of political economy.[48] And the Bank might be split into separate 'companies' under a holding company, like a Japanese *kairetsu*, each company defined by a 'results area', each drawing help from others but operating largely independently, and placed in different centres around the world.

Short of that, the Europeans and the Japanese could organize themselves to steer the Bank a bit more. The Nordics have already been doing so on the 'social' aspects of development by putting up millions of dollars in trust funds for Bank work in this area – an area where the US Treasury is happy to let them take the lead and pay the cost, because peripheral to the interests of the US state but central to the objectives of many US NGOs whom the Treasury needs to keep happy. The question is when the Europeans and Japanese will exercise more leadership on the economic policy issues where the US Treasury really does want the Bank as its instrument, such as opening developing country capital markets; and when the representatives of developing countries on the board of the Bank will concert their actions for a change.

NOTES

1 He thanks for comments, without implicating, Mark Blyth, David Dollar, David Ellerman, Devesh Kapur, Kevin Morrison, Michael Woolcock and several others who wish deep anonymity.
2 Quoted in Joshua Cooper Ramo (1999) 'The three marketeers', *Time*, 15 February.
3 To call this a free market agenda is always misleading without the qualification that it also quietly sanctions government intervention in financial markets in order to socialize the losses of banks and other large creditors.
4 National Security Affairs Presidential Assistant Anthony Lake, speech of 21 September, 1993, emphasis added.
5 See Ngaire Woods, 'The challenges of multilateralism and governance', in Chris Gilbert and David Vines (eds) *The World Bank: Policies and Structure*, Cambridge University Press, 2000; 'The challenge to international institutions', in Ngaire Woods (ed.) (2000) *The Political Economy of Globalization*, Basingstoke: Macmillan. On the US's influence in the Fund see Strom Thacker (1999) 'The high politics of IMF lending', *World Politics*, 52: 38–75.
6 Quoted in Giovanni Arrighi and Beverley Silver (1999) 'Hegemonic transitions: past and present', *Political Power and Social Theory*, 13: 239–75.
7 Catherine Gwin (1997) 'U.S. relations with the World Bank', in *The World Bank: Its First Half Century, vol. 2*, Brookings Institution, Washington DC: Perspectives, pp. 195–274. Michelle Miller-Adams (1999) *The World Bank: New Agendas in a Changing World*, London: Routledge.
8 William Ascher (1992) 'The World Bank and U.S. control', in M. Karns and K. Mingst (eds) *The United States and Multilateral Institutions: Patterns of Changing Instrumentality and Influence*, London: Routledge, pp. 115–40. See also Kapur *et al.*, *The World Bank*, op.cit.
9 On the differences in the thinking of US economists compared to European (especially French) economists see Bruno Frey *et al.* (1984) 'Consensus and dissensus among economists: an empirical enquiry', *American Economic Review*, 74(5): 986–94.
10 Officially the Bank has several languages of business, but in practice only English counts (outside of the units working on Francophone Africa).
11 Lipset, Seymour M. (1996) *American Exceptionalism*. New York: W.W. Norton.
12 See Nils Brunsson (1989) *The Organization of Hypocrisy: Talk, Decisions and Actions in Organizations*, Chicester: John Riley.
13 I draw on Ravi Kanbur (2001) 'Economic policy, distribution and poverty: the nature of disagreements', *World Development*, 29(6), and <http//www.people.cornell.edu/pages/skl45>. I should make clear that the debate at the time of the WDR2000 was not couched in terms of 'Finance Ministry' versus 'Civil Society' agendas. These terms came later to designate the constellations of beliefs in contestation.
14 The US interest dates from the appointment of the well-known conservative economist Anne Krueger as successor to Hollis Chenery, in 1981. Of the six chief economists since Chenery, four have been American citizens. Michael Bruno, chief economist in the mid-1990s, was an Israeli who had lived in

the US and taught at US universities. The current chief economist, Nicholas Stern, appointed in 2000, is British.

15 The core budget ranges from $3.5 million to $5 million, handsomely supplemented from trust funds and foundations. Each WDR has a print run of at least 50,000 in English, some have gone to over 100,000, and smaller numbers are translated into seven languages. In addition the Bank produces about 50,000 copies of the WDR summary across seven languages (Chinese, German, French, Spanish, Japanese, Russian and Vietnamese). Free copies are given to individuals or organizations from developing countries. UNCTAD's annual Trade and Development Report, the only multilateral development report to provide serious economic challenges to heartland World Bank views in favour of the free market and the neoliberal state, has a print run of only about 12,000 in English, plus another 7–8,000 copies split between the other five official languages of the UN (Chinese, Russian, French, Spanish, Arabic). It is produced on a shoestring budget of less than $700,000. UNDP's Human Development Report has a print run of 100,000 in 12 languages, with a budget of roughly $1.5 million.

16 The contrast between the image of the WDR as a report by independent social scientists and its reality as an advocacy document is caught in a statement by Wolfensohn, intended, ironically, to assert the independence of the Bank from the US Treasury. 'I'm out there with the CDF [Comprehensive Development Framework], and every speech I make says it. You think I'm going to let a WDR go out that doesn't say it [doesn't promote the CDF]?'. Deepak Gopinath (2000) 'Wolfensohn agonistes', *Institutional Investor*, September.

17 For another fine-grained study of the Bank in interaction with the US and Japan see Robert Wade (1996) 'Japan, the World Bank, and the art of paradigm maintenance: The East Asian Miracle in political perspective', *New Left Review*, 217, May/June, pp. 3–36.

18 Stiglitz shared the 2001 Nobel prize with two other American economists.

19 See the common themes in James Wolfensohn (1997) 'The challenge of inclusion: 1997 Annual Meetings address', *World Bank*, 23 September; (1998) 'The other crisis: 1998 Annual Meetings address', *World Bank*, 6 October; (1999) 'Coalitions for change: 1999 Annual Meetings address', *World Bank*, 28 September; Joseph Stiglitz (1998) 'Towards a new paradigm for development: strategies, policies and processes', *World Bank*, 19 October; (1999) 'Participation and development: perspectives from the Comprehensive Development Paradigm', *World Bank*, 27 February. On Stiglitz's role in Ethiopia see Stiglitz (2001) 'Thanks for Nothing', *The Atlantic Monthly*, 288, 3, October, pp. 36–40; Wade (2001) 'Capital and revenge: The IMF and Ethiopia', *Challenge*, Sep/Oct, 67–75.

20 Summers even blew Wolfensohn up for the Bank having invited Jeffrey Sachs to be a keynote speaker at the *Annual Bank Conference on Development Economics* in April 2000. Summers did not care for Sachs, who had made highly publicized criticisms of the IMF's and the Treasury's handling of the Asian crisis and who, as a member of the International Financial Institutions Advisory (Meltzer) Commission, had broken ranks with the Democrats and sided with the Republicans, allowing the Republicans to claim that the report was a bipartisan majority report. Sachs had put his name to the majority report's call for the World Bank to be reduced to a glorified grant-making body, like UNDP. How, Summers wondered, could the Bank give a hostile critic a keynote address right after the anti-Bank demonstrations at the Spring Meetings of the Bank and the Fund? On a visit to the Bank Summers saw

Sachs' name prominently displayed on the posters advertising the forthcoming conference, and complained loudly. The office of a senior manager sent out instructions to take them down, and down they came. Sachs was invited to be a keynote speaker by conference organizer and Bank staff member Boris Pleskovic. Pleskovic was close to Sachs, having in the early 1990s brought him to advise the government of his native country of Slovenia. And Stiglitz had a non-aggression pact with Sachs, based on common enmity to the IMF. Pleskovic and Stiglitz together invited Sachs before Stiglitz resigned as chief economist.

21 Quoted in Avenue (2000) *Financial Times*, 27 June, p.15. Wolfensohn went on to tell a story about what happened to Joe on a recent trip to Nepal. Joe met a shepherd, and asked him, 'Will you give me a sheep if I guess the exact number of sheep?' The shepherd said 'Yes', Joe said '437'. The shepherd said, 'That's amazing'. As Joe grabbed his prize the shepherd said, 'Will you give it back if I guess your occupation.' Joe said 'Yes'. The shepherd said, 'Economist'. Joe said, 'That's amazing, how did you know?' The shepherd said, 'If you put down my sheepdog I will tell you'.

22 Louis Uchitelle (1999) 'World Bank economist felt he had to silence his criticism or quit', *New York Times*, 2 December, C1.

23 Joseph Stiglitz (2000) 'What I learned at the world economic crisis', *New Republic*, 17 April.

24 This mammoth and expensive exercise was suggested by, then orchestrated by Alex Wilks of the Bretton Woods Project, a London-based NGO.

25 Writing this section was a challenge. Everyone on the team knew from the start that the report had to endorse both democracy and empowerment as good for poverty reduction, because this was the message that had been decided in advance by the Bank as Church of Development. But how to prove it? They could use Amartya Sen's *Democracy as Freedom*, with its argument that democracy was both an instrumental good (promoted more investment in education and other good things) and an intrinsic value, part of the very concept of development; Judith Tendler's *Good Government in the Tropics*, about an experiment in one state of Brazil; the standard cases of Kerala and Sri Lanka; and voluminous cross-country regressions showing democracy as good for just about everything. But those who worked on this part of the report were well aware that the 'democracy helps development' evidence is weak, yet in the words of a participant, 'there was little way that the WDR could come out weak in that vein'. The evidence that 'empowerment helps development' is stronger, they thought, if the definition of participation is made broad enough.

26 David Dollar, a prominent Bank economist, had earlier co-authored a paper setting out the 'growth first' argument. David Dollar and Aart Kraay (2000) 'Growth is good for the poor', Development Research Group, The World Bank, March. (The paper was written and discussed in the Bank before the red cover draft of the WDR and not a response to it.) The paper showed that high growth is indispensable for poverty reduction, when supplemented by good policies and good governance. Dollar and Kraay disassociated themselves from the popular portrayal of their paper as a manifesto for growth-is-everything (Letter to *The Economist*, 24 June, 2000.) As Dollar explained the core of the argument, 'The main effort of our paper is to explain income inequality and changes in inequality . . . It [turns out to be] very hard to systematically explain inequality. Because growth-enhancing policies have no systematic effect on inequality, they tend to raise income of the poor in the

same proportion as mean income' (Dollar, personal communication, 12 September 2000). A member of the WDR team commented on this part of my text, 'My experience is that the vast majority of the pressures for changes came from the outside [rather than from Bank economists] . . . from a small number of smart, influential, senior external individuals (and the interests they represent) who play dirty to win. They won several battles along the way and took Ravi's scalp, but I think we won the war . . . Most Bank research staff, including those labelled "ultra-orthodox", essentially agreed with the thrust of the draft WDR; remaining differences were good old-fashioned fights about data, methods and interpretation'. See the important contribution by Mark Weisbrot, Dean Baker, Robert Naiman, and Gila Neta (2000) 'Growth may be good for the poor – but are IMF and World Bank policies good for growth? A closer look at the World Bank's most recent defense of its policies', Center for Economic and Policy Research, Washington DC, 7 August.

27 They read like marching orders to the WDR team, but not to a bank research manager who commented, 'I don't remember them reading like marching orders. I remember going over them with Nick Stern to try to see what Ravi was so upset about. Nick said something like, "I can't see what the fuss is about, they seem reasonable enough comments, don't they?"'. But he acknowledged that 'the same text "feels" different if you are reading it as part of a team that is being criticized by it (I think that Ravi was by then feeling pretty beleaguered all round), and if you are reading it as an outside observer brought in to look at a problem, which is more or less what Nick and I were doing. I know that Ravi was indeed very concerned by his perception of Treasury pressure, but I don't think that satisfying the Treasury played any part in Nick's subsequent work on the WDR. As an example, Ravi thought that the lateness of the Treasury's comments was "strategic". . . . I couldn't see any strategic advantage in getting your comments in late – rather the opposite, and there are plenty of more plausible explanations for lateness of comments' (personal communication, 12 September 2000).

28 'Apparent success' because the breakdown of the negotiations was probably due more to disagreements between the state representatives than to the demonstrators, for all the media attention to the latter. Other elements behind Treasury's comments included the not always smooth relationship between Summers and Kanbur when Summers was chief economist at the Bank and Kanbur reported to him as chief economist of the Africa region; Treasury's anger at Stiglitz, which spilt over onto Stiglitz's appointee; and Summer's anger at the Bank giving Sachs a platform at the ABCDE conference in April 2000.

29 Available online at <http://www.worldbank.org/devforum/forum_poverty.html>.

30 A Bank research manager disagrees. 'Nick [Stern, Stiglitz's successor] had been Ravi's supervisor as a graduate student – they knew each other very well, for goodness sake. Ravi was far from being unprotected, because Nick was in a really powerful position (just think about it, if Nick had resigned!). I think that Nick, like me, was rather baffled by Ravi's resignation. If we had really felt the Treasury hegemony which you claim then we would both have quit – after all, we both have good academic jobs to go back to. Nick was appointed on Joe's recommendation. Nick saw absolutely no reason to resign, and on the contrary could not see a good reason for Ravi to resign. Nick is not a poodle brought in by Washington; after all a previous US

administration did its best to block his appointment to the post a few years ago' (personal communication, 12 September, 2000).

31 He informed the WDR team of his resignation by a brief email. This fitted the style of the whole project. Throughout the making of the report the authors worked on their own chapters with little discussion among themselves, though in adjacent offices. Kanbur obtained coherence between the chapters through his discussions with each author separately, and through his revisions to their drafts. With one exception (a trip by his deputy) Kanbur was the only person who traveled the world getting feedback. The rest of the team did not experience the learning and the bonding that might have come from shared trips.

32 Available online at <http://www.worldbank.org/poverty/wdrpoverty/rkanbur.htm>.

33 Alerted by the Bretton Woods Project the *Financial Times* carried several stories, the first by Alan Beattie (2000), 'Strains in the Bank's inclusive model', 16 June, Other major papers also carried the story. The reports put the resignation in the same frame as Stiglitz's firing, the Bank's inability to tolerate dissenting views despite its avowals to the contrary.

34 A Bank research manager comments, 'Your claim that Ravi's strategy worked and that this accounts for the red cover [January] version being kept more or less intact again does disservice to Nick who simply choose to shape the final report as it was because that is what he believed. Your angels/devils story depends upon Nick (and myself) being poodles or tacit devils. We're not; we were both chosen by Joe, see ourselves as part of the continuity, and both greatly regret Ravi's decision which we think was an unnecessary tactical manoeuvre'.

35 'At Treasury, our most crucial international priority remains the creation of a well funded, truly global capital market' (Summers (1997) 'America's role in global economic integration', conference, *Integrating National Economies: The Next Steps*, Brookings Institution, Washington DC, 9 January). After the Asian crisis began Treasury Secretary Rubin reiterated that, 'Global capital flows have been an enormous boon to growth in countries around the world, lifting millions of people out of poverty – this is especially true in the dynamic, rapidly industrializing countries of East Asia'. He even urged China to lift capital controls. 'China would also benefit by opening itself more widely to foreign investment, allowing foreign firms to bring their expertise and capital to the Chinese market' (Robert Rubin (1997) 'Remarks to the national center for APEC, Seattle, Washington, 18 September). The Asian crisis prompted a small shift in Treasury's position. In April 1999 Summers said, 'Properly paced liberalization of the capital account is essential, as the damage that premature, patchwork liberalization can do is all too clear . . . I am convinced that cookie-cutter formulae or preset procedures can never be pre-designed to respond to the various circumstances that will arise. A case-by-case approach . . . will work best' ('Roots of the Asian crisis and the road to a stronger global financial system', speech to International Institute of Finance, Washington DC, 25 April, 1999). See Nicholas Rivelle, 'Orthodoxy under pressure: how the Asian crisis affected US views on capital account liberalization', typescript, Political Science, Brown University. See also Robert Wade, 'The US role in the long Asian crisis of 1990–2000', in F. Batista-Rivera and A. Lukauskis (eds) *The East Asian Crisis and Its Aftermath*, Edward Elgar, 2001; (2000) 'Wheels within wheels: Rethinking the Asian crisis and the Asian model', *Annual Review of Political Science*, 3: 85–115.

36 WDR2000, box 3.3. Branko Milanovic (1999) 'True world income distribution, 1988 and 1993', *Policy Research Working Paper 2244*, Development Research Group, World Bank, November.

37 The summary document is carefully vetted at high levels of the Bank, since it is read by many more people than the full report. Not only is the summary closer to the Bank's pre-set message than the main report, but sometimes messages are inserted into the summary that are not present in the report at all, reflecting the agenda of a higher level reviewer. For example, the WDR 2000 summary says, 'And the international community should seek to stem armed conflict – which affects poor people the most–by taking measures to reduce the international arms trade, promote peace, and support physical and social reconstruction after conflicts end' (p.12). Yet the report says nothing about the international arms trade and virtually nothing about armed conflict.

38 Available online at <http://www.worldbank.org/html/extdr/extme/ts091200a.htm>.

39 After Kanbur's resignation NGOs lobbied some congress people to sign a letter to Summers protesting at Treasury's strong-arm tactics over the WDR, sent in July 2000 with 15 signatures. Summers responded in mid-September. He did not address Kanbur's resignation. He said that Treasury's only real complaint with the WDR draft was that it 'placed too little emphasis on the crucial role of economic growth in the process of poverty reduction . . .' He also said that the World Bank solicited Treasury comments, so there was no unwanted interference. The congressional staffer who distributed Summers' letter to NGOs remarked, 'I can't believe it took treasury a month and a half to draft a response full of over-used platitudes'.

40 How seriously the Treasury is committed to labour standards is an open question. The Hindi proverb quoted earlier applies to Treasury as much as to the Bank.

41 See the Bank policy paper (1999) 'Social Protection Strategy Paper: From Safety Net to Trampoline', *Social Protection Sector*, World Bank, March. The poor are poor, it says, because they have too few assets and do not manage their assets for maximum returns; the main solution is to help them better manage their portfolios, improve their management of risk. Some public action is countenanced to improve risk management instruments available to the poor. The paper barely mentions collective action by poor people and their allies, which in the west has sometimes been a powerful way to change institutions and asset distributions.

42 Median unweighted GDP per capita growth in 1960–79 was 3.4 percent for developed countries, 2.5 percent for developing countries; in 1980–98, 1.8 percent and 0.0 percent, respectively. The weighted average growth rate for developing countries in 1980–98 was 0.8 percent. The smaller fall of the weighted average reflects the faster growth of China and India. William Easterly (2001) *The Elusive Quest for Growth*, Cambridge: MIT Press, Branko Milanovic (1999) 'True world income distribution, 1988 and 1993', *Policy Research Paper 2244*, Development Research Group, World Bank, November. Robert Wade (2001) 'Winners and losers', *The Economist*, 28 April, pp.79–82.

43 I agree that fast economic growth can do wonders for poverty reduction without much by way of targeted 'anti-poverty' measures, especially when asset distribution is relatively equal; I question whether the liberal free market recipe is generally good for growth. See Mark Weisbrot *et al.* 'Growth may be good for the poor – but are IMF and World Bank policies good for growth?

A closer look at the World Bank's most recent defense of its policies', cited above. And Wade (1990) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton: Princeton University Press, final chapter.

44 The Bank's social sector lending increased from 18 percent of the total in 1995 to 25 percent in 1999.

45 See Ronald Dore (2000) *Stockmarket Capitalism, Welfare Capitalism: Japan and Germany versus the Anglo-Saxons*, Oxford: Oxford University Press; Robert Lane (1994) 'The road not taken: friendship, consumerism, and happiness', *Critical Review*, 8(4): 521–54.

46 *International Herald Tribune*, 20 September 2000.

47 Geoffrey Garrett's research challenges the argument that today, if not earlier, the neo-liberal logic of capital accumulation dominates politics, making social democratic versions infeasible or unwanted by the most powerful actors. See 'Shrinking states? Globalization and national autonomy', in Woods (ed.) cited above.

48 Insofar as the Bank matters in the world because the US believes it holds sway there (and the UN does not matter for the opposite reason), shifting the Bank headquarters elsewhere could be its death knell; which would be even worse for development. The move would only help if the Europeans were prepared to lead.