ECONOMICS

Unhappy birthday

After 50 years, it's time for the World Bank to change course.

By David Moberg

As the World Bank celebrates its 50th anniversary in Madrid this month, a growing chorus of critics from both rich and poor countries will be sending a sour birthday message: 50 years is enough. The World Bank, they say, has not only failed to reduce world poverty through its development loans; the policies it pursues—in tandem with sister agencies like the International Monetary Fund (IMF)—have increased global poverty and inequality, trampled democracy and the rights of the powerless, and laid waste to the environment.

Established to help Europe rebuild after World War II, the Bank actually played a tiny role there. Much of Europe's reconstruction was funded through Marshall Plan programs, which promoted economic expansion and employment with grants and low-interest aid. Despite free-market rhetoric, the Marshall Plan gave European governments wide latitude in shaping national economic policies, often along social democratic lines.

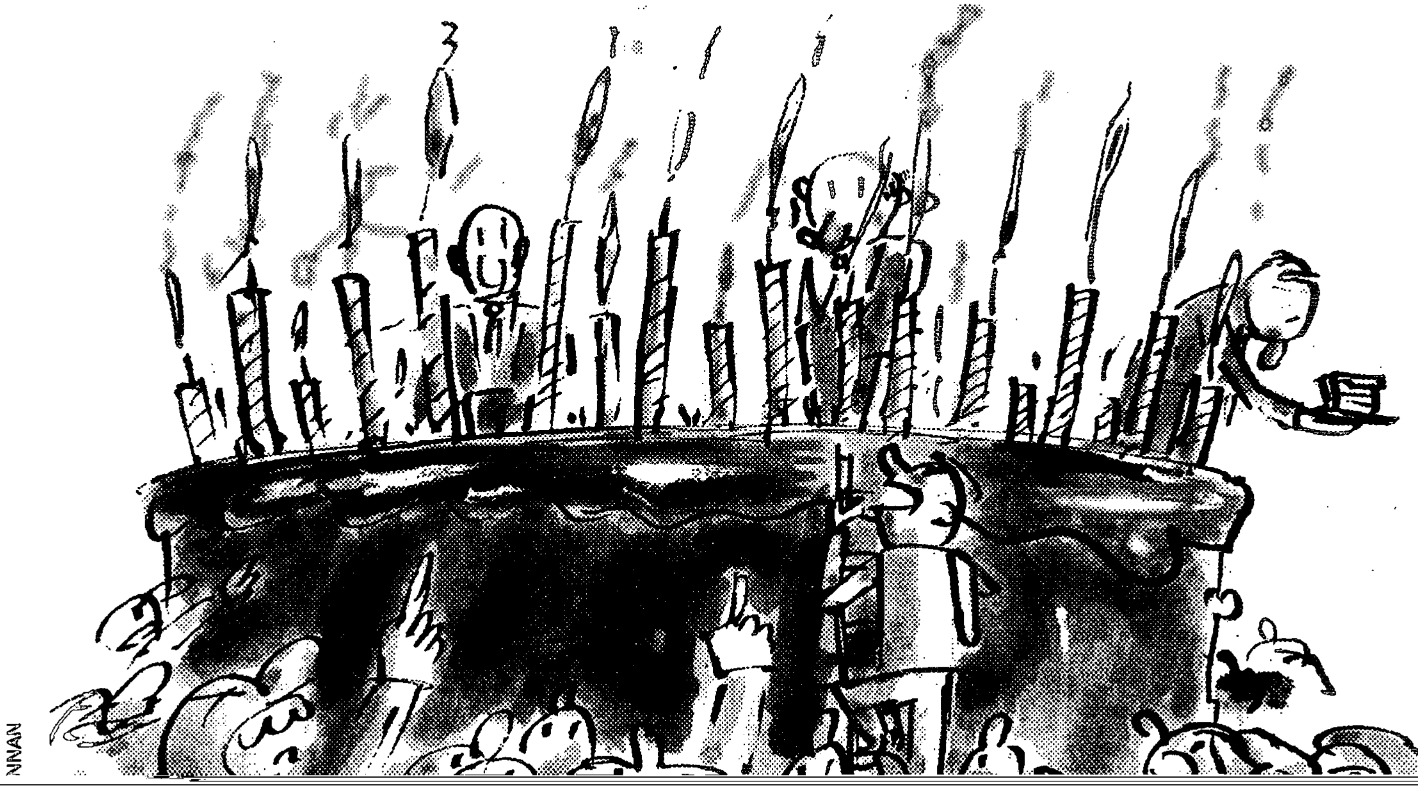
By contrast, the Bank and the IMF have—especially over the past two decades—pursued policies that have saddled poor countries with enormous amounts of foreign debt and deflated their economies in the name of free-market discipline. At the same time that the Bank has advocated austerity for the world's poor, it has supported a slew of development boondoggles that have enriched corrupt Third World elites while despoiling the environment.

The Bank itself has always been an elite institution: its presidents have come mainly from the ranks of corporate America. Despite its talk about alleviating poverty, the Bank has served primarily as an instrument of transnational financial interests. But it is important to remember—especially when contemplating possible reforms—that it has one other major constituency: the elites in many poorer countries.

Ostensibly a non-political technocracy, the World Bank has always been political. It was an important instrument of Cold War anti-communist policies. It has also had a sordid record of underwriting dictators—from Brazil, where the Bank would not lend to the democratically elected leftist government of João Goulart but promptly aided the generals who ousted him in 1964, to Romania, where renegade communist Nicolae Ceausescu was one of the Bank's biggest borrowers from 1974 to 1982.

The Bank has also been extremely secretive, drawing up vast plans for countries without releasing any information to their citizens. In most decisions, the Bank has been accountable to virtually no one—leaving Bank projects notoriously susceptible to fraud and waste. Two years ago an internal review concluded that more than 35 percent of World Bank projects were financial failures.

During its first 25 years, Bank leaders complained that there were few projects worthy of funding. But Robert McNamara, Kennedy's defense secretary and architect of the escalation in Vietnam, aggressively expanded Bank lending during his tenure as president from 1968 to 1981. McNamara's mission seemed unimpeachable: more growth, more focus on alleviating poverty, more attention to the environment. But in practice the Bank produced virtually the opposite results.



more exports—whether low-wage manufactured goods or agricultural commodities. When the agro-export strategy succeeds, it usually benefits big landowners—and hurts the environment with chemical use, extensive monoculture and deforestation. But the World Bank's overpromotion of exports encouraged gluts in world markets and led to extreme price depressions. Especially in Latin America and Africa, the poor have gotten even poorer over the past decade, even during periods of relatively robust economic growth.

During the '80s there were sharp declines in per capita income in three-fourths of the countries that were subjected to World Bank/IMF structural adjustment plans, according to the United Nations Children's Fund. At the same time, the rich in those nations have often prospered; income inequality has increased sharply—even in countries such as Ghana, Costa Rica and Mexico, which are often cited as World Bank successes.

By some calculations the Bank may be shifting capital from less-developed countries to the developed world. But because structural adjustment plans depress debtor country economies—leaving them too poor to increase imports—First World workers are also hurt by World Bank policies. In May, Treasury Secretary Lloyd Bentsen claimed, without substantiation, that World Bank/IMF policies increase U.S. exports by $5 billion a year, creating 100,000 jobs in this country. But a study by John Cavanagh, Sarah Anderson and Jill Pike of the Institute for Policy Studies estimates that the United States lost about 20,500 jobs a year in the '80s because most recipients of World Bank/IMF loans actually *reduced* their imports of U.S. goods.

Recently, the Bank has come under increasing attack by critics from both the right—who object to any government foreign aid or public lending—and the left. In Congress an odd alliance of anti-aid Republicans and liberal Democrats has begun to place conditions on U.S. funding to the Bank. The Bank has made rhetorical concessions to the critics, who argue in turn that there has been no meaningful change in real policy.

Left critics agree that the Bank needs to be more open and democratic, involving citizens—especially the poor—of borrowing countries in formulation of development strategies. They want smaller projects with more environmental foresight and closer monitoring of long-term results. They want the IMF and Bank officials to stop setting public policy for debtor countries and to agree to a dramatic write-off of debt for the poorest countries—a move that would accomplish more than additional loans.

Democratization of the World Bank would be a great step forward, but it is incredibly ambitious. The Bank, after all, is the handmaiden of international financial and governmental elites, as well as the ideological progeny of mainstream free market economics. Effectively democratizing the Bank's operations means not only challenging the dominance of both transnational corporations and banks but also, in most cases, the government elites in both debtor and lender countries.

But simply pressing for democratization of the Bank is not enough. Many critics, especially among environmentalists, are advocates of small-scale, decentralized projects, which in most cases would be far superior to what the Bank has previously funded. But the critics do not offer a coherent alternative for dramatic development on a national scale. In many cases, such as in Bruce Rich's fascinating new book, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development*, environmental critics question the very idea of growth. (See *In These Times*, September 19.) Some, such as former World Bank economist Herman Daly, think development agencies should shift their focus altogether—from promoting Third World growth to constraining growth in the First World.

Ultimately the debate should not be about growth or no-growth but rather the quality of life for everyone on the planet. After all, growth of some type is fine: who could quibble with increased use of solar energy? But growth is not enough: too often growth in the past decade has benefited primarily the rich.

Fifty years of the World Bank and the IMF have brought the poorest billion or so people on our planet neither economic growth nor any non-material improvements in the quality of their lives. Of course, this was not an inevitable outcome of the World Bank's creation. At the time of the Bretton Woods conference in 1944, when the World Bank and IMF were established, economist John Maynard Keynes argued for the creation of a tax on countries that compile trade surpluses. The tax, Keynes said, could be used to aid growth in countries running trade deficits—a plan for income redistribution that makes even more sense today.

Redistribution won't be popular with rich elites in the poor countries or with anyone in the rich countries, especially in the United States. But in the wake of NAFTA's passage—as U.S. jobs go to low-wage Mexican workers—many Americans are beginning to understand how intimately their fortunes are tied to the well-being of the world's poor. Pinched by the economics of global competition, they are realizing how great a stake even the citizens of the world's most powerful economy have in reversing 50 years of failure in meeting the needs of the world's poor. ◀

RUSSIA

Nyet profit

The collapse of a prominent investment firm is giving Russians a crash course in capitalism.

By Fred Weir
MOSCOW

Three times this summer, forlorn crowds gathered outside the shuttered steel doors of Moscow investment firms that are likely never to open again. People dragged together by common ruin stood in fear and hope, praying someone would say it wasn't true. Many wept, others made angry speeches, some seemed too stunned to react.

"I've been robbed over and over again. First my savings were wiped out by inflation, and now this," said Vera Sokolova, a 67-year-old pensioner. "MMM was my last hope for a normal life."

Last spring Sokolova staked and lost about $300, everything she had, on promises of big dividends from MMM, a giant investment firm whose advertising slogan was "MMM—Nyet Problyem."

But the company turned out to have massive problems. After collecting an unknown volume of money from an estimated 10 million small investors, MMM suddenly devalued its shares by over 99 percent, from 125,000 rubles ($60) to 900 rubles (45 cents), and closed its 70 Moscow offices in late July.

The crash came after the Russian government took action against MMM. Following a special cabinet meeting, the State Anti-Trust Committee took the extraordinary step of charging publicly that MMM was a pure pyramid scheme, that it had never made a single legitimate investment and that it had probably already transferred a big part of its shareholders' money to private overseas bank accounts. When the dust settled, millions of ordinary Russians had lost their shirts and MMM's charismatic founder-director, Sergei Mavrodi, was in prison facing a relatively minor charge of tax evasion.

A few weeks later the House of Selenga, a huge Siberia-based financial organization, closed down after being caught trying to illegally transport several million dollars in cash. In late August the Tibet Concern, an investment bank with 600,000 small shareholders, slammed its doors after five of its top executives and most of its money disappeared.

The government—which stood by indifferently for months while those companies built their fraudulent empires—has so far offered little more than paternal sermons in response to the rage of the victims. In his only public comment on the scandal, President Boris Yeltsin told journalists that the collapse of MMM was "a good lesson for our people. [Russians] should learn to be very careful about super-adventurous promises such as 1,000 percent profit."

Worthy advice. But if Russians have illusions about how capitalism operates, they can largely thank their own government for planting and nurturing that confusion in the first place.

"In the old days, one was supposed to be a model worker and a communist. That's what they taught us," said Sergei Artumov, a 27-year-old machinist who lost 2 million rubles (about $1,000) in the MMM fiasco. "Now it's right to be an investor. I wasn't doing something crazy—I was doing what was expected."

Until recently, officials were hailing Russia's booming new securities market and citing it as evidence of communism's final retreat. "The Russian economy is starting to take off from the springboard of privatization," Deputy Premier Anatoly Chubais said at a press conference in June. "The people have embraced new ways, and we can