Policy Analysis

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Executive Summary

The World Bank is helping Third World governments cripple their economies, maul their environments, and oppress their people. Although the bank started with the highest ideals some 40 years ago, it now consistently does more harm than good for the world's poorest.

The World Bank's raison d'etre in its early years was to encourage development. Now, the bank exists largely to maximize the transfer of resources to Third World governments. And by so doing, the bank has greatly promoted the nationalization of Third World economies and has increased political and bureaucratic control over the lives of the poorest of the poor.

Bank officials are now leading a rhetorical crusade in favor of the private sector. Yet every time the bank loudly praises the private sector, it silently damns its own record. More than any other international institution, the bank is responsible for the rush to socialism in the Third World--the rise of political power over the private sector--and the economic collapse of Africa.

Although the bank has been very effective at expanding government control of Third World economies, it has been extremely ineffective at encouraging private-sector-oriented reform. A 1986 confidential bank report found little or no evidence that the bank's lending has caused significant movement toward greater reliance on markets.[1]

The World Bank is seeking new U.S. funding this year, almost a billion dollars for the International Development Association, which provides zero-interest 50-year loans to the poorest, usually worst-managed countries. The bank also is expected to request a major increase in its capital next year, requiring another commitment of some $10 billion from American taxpayers, to allow it to greatly increase its lending to Third World governments.

Yet the bank's operations present a classic illustration of failure being its own reward. The bank is notorious for giving bad advice. In the 1970s it helped to lay the groundwork for the Ethiopian government's current murderous resettlement program.[2] Bank aid has helped many countries build unneeded steel factories, underused airports, and roads that crumble as soon as they are completed.

The World Bank is currently run like a Soviet factory, concerned only with meeting its quantitative production goals. Bank president Barber Conable, in a recent interview with Le Monde, declared, "The 1986-87 fiscal year, which ended on June 30, was a success: our commitments represented $14.2 billion as against $13 billion the previous fiscal year."[3]

It is surprising that the bank would consider itself a "success" simply because oppressive governments in Ethiopia and

Mozambique and inept governments around the globe accepted more zero-interest 50-year loans or other bank-subsidized aid. According to the bank's own auditors, bank projects have suffered from "unseemly pressure" to lend more money.[4] Bank officers have pressured Third World governments to borrow more than they wished to borrow, a practice having dire results for the country, as unnecessary bank projects have turned out to be prize boondoggles.

A Congressional Research Service study concluded in 1980, "The Bank is seen as presiding over the buildup of debts which will ultimately be defaulted."[5] In 1986 the Economist noted, "The Bank failed to anticipate the debt crisis that erupted in 1982."[6] Despite the fact that 56 Third World countries have now fallen behind in their debt repayments, the bank continues to push for ever greater lending--both by itself and by commercial banks--to Third World governments.[7]

It wasn't always like this. From the bank's creation in 1946 until the late 1960s, the bank was a conservative institution that primarily funded infrastructure and other basics in less developed countries (LDCs). In 1968, Robert McNamara became bank president and dedicated the bank to achieving ever higher loan levels. Between 1968 and 1981, when McNamara resigned, the bank's lending levels increased twelvefold, from $883 million to over $12 billion, and they have continued soaring since then.

The only thing the bank has left is the nobility of its original mission: to lift the poor nations of the world out of poverty. But it provides far more help to Third World politicians and bureaucrats than to Third World citizens. And most of all, the bank continues helping itself by doling out ever larger amounts of money.

The World Bank vs. Human Rights

The World Bank has a long and dismal record of getting entangled in human rights atrocities. Despite its humanitarian image, the bank often shows little or no concern for the welfare of poor citizens.

When McNamara began boosting lending in the late 1960s and the early 1970s, the bank lowered the standards for its loans. McNamara's favorite foreign leader was Julius Nyerere, ruler of Tanzania, which has received more bank aid per capita than any other country. The bank's unconditional support of Nyerere's dictatorial regime is a major cause of the Tanzanian people's current misery.

In the early 1970s, with bank aid and advice, Nyerere implemented his ujamaa, or villagization program. Nyerere sent the Tanzanian army to drive the peasants off their land, burn their huts, load them onto trucks, and take them where the government thought they should live. The peasants were then ordered to build new homes "in neat rows staked out for them by government officials."[8] Nyerere wanted to curb his countrymen's individualist and capitalist tendencies and make them easier to control.[9] He even outlawed people sleeping in their gardens at night, which meant that monkeys were free to help themselves to the crops. In many cases, the new government villages were far from the farmers' own lands, and so they simply gave up tilling the land, with the result that hunger has increased in Tanzania in recent years.

The bank also helped finance the brutal policies of the Vietnamese government in the late 1970s that contributed to the deaths of tens of thousands of boat people in the South China Sea. After North Vietnam invaded and conquered South Vietnam, there was widespread dissent in the south against the new government's forced collectivization policy. Yet the bank lent $60 million to the government of Vietnam in August 1978, even after widely circulated reports in the West of massive concentration camps and brutal repression. The bank announced that the loan would finance "an irrigation project that will boost rice production." A confidential bank report admitted, however, that "the main effort to deal with the employment problem [in the south] consists of the creation of New Economic Zones--agricultural settlements that are intended to resettle 4 or 5 million people by the end of 1980."[10] The report conceded that the project was risky because of the possibility of rebellion among farmers. Farmers who resisted the government's "reorganization" were sent out in leaky boats, and thousands drowned in the South China Sea. Despite the undeniable evidence of atrocities, the bank planned to give five more loans to Vietnam until it encountered angry resistance in Congress.[11]

The bank has lent the government of Indonesia over $600 million to remove--sometimes forcibly--several million people from the densely populated island of Java and resettle them on comparatively barren islands. Despite widespread reports of violence, the bank continues to laud the project as "the largest voluntary migration" in recent history.[12]

Indonesia's transmigration policy offers another example of the bank's hypocrisy. Official World Bank policy states that the bank will assist projects "within areas used or occupied by tribal people only if it is satisfied that best efforts have been made to obtain the voluntary, full and conscionable agreement of the tribal people." But Indonesian law states that tribal people's right to their lands and autonomy "may not be allowed to stand in the way of the establishment of transmigration settlements."[13] The government has jailed people who have abandoned their new homes and returned to Java to "prevent them [from] spreading negative reports and reducing the enthusiasm of others to transmigrate," according to an Indonesian newspaper.[14]

The Indonesian minister of transmigration proclaimed on March 20, 1985, "We will try to realize what has been pledged, to integrate all the ethnic groups into one nation--the Indonesian nation. . . . The different ethnic groups will in the long run disappear because of integration and there will be one kind of man."[15] As one Australian critic noted, transmigration is largely "the Javanese version of Nazi Germany's lebensraum."[16] The London-based Anti-Slavery Society for Human Rights reported to the United Nations that at least one supposedly vacant island given to the migrants was already inhabited and that the Indonesian army cleared the island by setting fire to the original inhabitants' crops.[17]

Forty environmental and human rights groups recently convened an international conference in Amsterdam to discuss the problems with transmigration in Indonesia. Yet despite widespread and undeniable human rights violations and an almost complete lack of economic viability, the bank continues to support transmigration there.

The World Bank is also providing huge sums to the Ethiopian Marxist regime of Mengistu Haile Mariam. In the midst of the 1984-85 famine, when starvation reportedly threatened seven million Ethiopians, the government launched a massive resettlement program to forcibly deport hundreds of thousands of people in northern Ethiopia to the south. According to Doctors Without Borders, a French medical assistance group, the resettlement program may have killed more people than the famine itself.[18] Thousands of the resettlees are being kept in concentration-camp-type facilities, where death rates are reported to be quite high, until the government decides where to put them.[19] In 1986, the Economist cited Ethiopia for the worst human rights record in the world.[20]

The Ethiopian government recently announced that it intends to continue the resettlement program, despite international criticism, with the goal of forcibly resettling seven million people.[21]

Moreover, the government has launched a program that may have even more devastating economic effects than the resettlement program. Mengistu is committed to a villagization program wherein the government forces people to abandon their privately held land and live in government-controlled villages, complete with guard towers. Three million Ethiopians have already been forcibly removed this way, and the government claims that it will eventually resettle 33 million people (75 percent of the population) in villages.

The villagization program is reminiscent of the Tanzanian scheme of the 1970s but far more brutal. Ethiopian refugees in Somalia recently reported that "Ethiopian soldiers seized their land, destroyed their mosques, burned copies of the Koran and tried to force them to live in villages and give their produce to a collective, in return for standard food rations."[22] By forcing people to live in villages, the government makes it more difficult for anti-Mengistu rebels to hide in the countryside. The villagization scheme is also tied closely to the government's plan to nationalize all agriculture.

Throughout this period, the bank has provided large amounts of aid to the Mengistu regime. Bank commitments to Ethiopia in 1985 equaled roughly 16 percent of the government's budget.[23] In 1985, the bank gave the government $4 million to improve its "management of the economy," and last summer, the bank gave it another $45 million to expand state farms producing timber.[24] The bank was not deterred by its own report admitting that Ethiopian "agricultural sector public enterprises are almost universally criticized as especially poor performers."[25] A May 1987 handout of $39 million went for "Ministry of Agriculture institutional development," among other projects, even though the agriculture ministry is heavily involved in the brutal villagization program.[26]

When Ethiopia asked the bank for a drought relief loan in 1985, the government explicitly stated that it planned to use part of the money for resettlement. The World Bank granted the loan but stipulated that the money not be used for resettlement. In the past, the bank has often had poor control over how its money is spent. According to Yonas Deressa, president of the Ethiopian Refugees Education and Relief Foundation, "They just take the money and laugh. Over the past two decades the World Bank has contributed as much to agricultural disaster in Ethiopia as the governments themselves."[27] Ethiopia will soon be receiving 100 trucks purchased with a 1985 World Bank loan, and it is very likely that some of the trucks will be used as human cattle cars. One disgruntled bank employee described the bank's Ethiopian policy as "genocide with a human face."[28]

According to the Congressional Research Service, "Any loan from the World Bank provides some measure of support for the borrower country's economy."[29] Even when World Bank funds do not directly support oppression by supplying large amounts of capital, they free up other scarce government resources to be used for oppressing the populace. The bank is financing the Ethiopian government while the government is herding the people into concentration camps and collective farms that doom the country's prospects for feeding itself and avoiding recurrent famines.

Throughout India, South America, and elsewhere, the bank is creating thousands of "development refugees," as Environmental Defense Fund attorney Bruce Rich calls them. In a bank-financed project in Singrauli, India, "200,000 to 300,000 of the rural poor have been subject to forced relocation twice, three times, in some cases four or five times in 25 years, each time with little or no compensation. Their livelihood was the land, which has now been destroyed and resembles scenes out of the lower circles of Dante's Inferno," Rich recently told the House Banking Committee.[30] The same violations of the rights of citizens through forcible resettlement have often occurred in Brazil.[31]

The bank is not opposed to human rights; many bank employees and officials are outstanding individuals with high moral codes. Nevertheless, the institution is driven to meet its lending goals, even if that means bankrolling oppression .

A Record of Incompetence

If one looks at but one year's loans and press releases, one may think that the bank has done a wonderful job. But a closer examination of bank documents shows that the bank itself is aware of its pervasive failures in many areas.

The bank's 1987 annual review of its project performance, published by the Operations Evaluation Department (OED), noted the following examples:

-- Seventy-five percent of World Bank African agricultural projects were failures.[32]

-- Despite endless pleading by the bank, many Latin American and African governments still refuse to make available sufficient money to maintain bank-financed roads and infrastructure. As the operations evaluation report asked, "Does the ready availability of (external) funds to rebuild illmaintained roads in any way sway the decision on maintenance funding?"[33]

-- The majority of small-enterprise borrowers from bank- financed development finance companies (DFCs) are in arrears in their debt repayments.[34]

-- Bank projects to encourage increased credit activity in Third World countries are routinely sabotaged by government regulations that hold interest rates below inflation rates, thereby destroying any possibility of a self-propelled credit market.[35]

-- The cost of "new jobs created" under bank loan programs is occasionally as high as $500,000 per job. This is extremely capital intensive and is particularly inappropriate for Third World countries with labor surpluses and capital shortages.[36]

-- The push for more and bigger loans has diminished the quality of lending. The audit of Madagascar's Morondava Irrigation and Rural Development Project, for example, highlighted the lack of consensus between the bank and the borrower and stated that "the new government was pressured by the Bank to accept the project so that it could be immediately submitted to the Executive Directors. . . . It was clear, however, that the new government had serious reservations about the project." A recent special study attributed the poor performance of smallholder livestock projects in part to the pressure of the lending program and concluded that "it is neither in the Bank's nor in the individual borrower's interests, to embark on non-viable undertakings on the basis of lending targets. . . . These projects offer instances where an unseemly pressure to lend was detected at evaluation. Such pressure is not normally so detectable and is seldom documented."[37]

World Bank Achievements. Past and Present

World Bank president Barber Conable and other bank officials are now preaching a gospel of private-sector initiative, stressing that the private sector is the key to economic growth and a strong future. Conable is right on this score, and it is good that someone at the bank finally recognizes the true source of economic growth.

But every time the bank praises the private sector, it silently damns its own record. The bank financed and approved the massive expansion of government power throughout the Third World. Bank aid has gone almost entirely to Third World governments or has been channeled through Third World governments, thereby increasing political control over the private sector--"crony capitalism," it has been called. Despite the bank's new rhetoric, the majority of its aid continues to pour into government coffers, increasing the dominance of politicians and bureaucrats over the economy.

World Bank money probably has made its biggest impression in Africa. Between 1973 and 1980, the bank plowed $2.4 billion into African agriculture.[38] For almost 15 years, the bank has concentrated on boosting food production; in the late 1970s and the early 1980s, 92 percent of its projects were designed to increase food production.[39] Yet per capita food production in Africa has fallen by almost 20 percent since 1960.[40]

A 1981 bank analysis of Africa concluded that "much of the investment in agriculture, especially the domestic component, has gone into state farms, big irrigation schemes and similar capital-intensive activities. These have turned out to be largely a waste of money: their impact on output has been negligible in most cases."[41]

Bank aid was crucial in creating and perpetuating African government agricultural boards. As a recent bank report noted, however, "In Tanzania, the grower . . . is always voiceless and marginal in the system, and everybody's costs are considered except the farmers'." Before the Sierra Leone Rice Board lost its exclusive right to import rice, "half of its imports were being allocated to influential politicians to distribute at their discretion." An official of the West African Rice Development Association observed, "There are deliberate efforts by management to reduce purchases so as to reduce costs of subsidies." The report noted, "Marketing margins of public marketing institutions are usually very high compared to that of private traders because of high overhead costs, large permanent staff, expensive head office facilities, and poor management."[42] World Bank aid has helped deliver African farmers over to what amounts to a system of government serfdom.

The bank's handouts to governments for agricultural projects often work out badly. One of the bank's West African projects to promote coffee and cacao production failed partly because of "soil unsuitability."[43] The bank encouraged farmers to grow crops that were unsuited for their soil. With friends like the World Bank, African farmers don't need enemies.

World Bank aid and advice have helped African governments launch a flood of new public enterprises, but as a 1986 bank report concluded, these enterprises "present a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives so frequently used to excuse their poor economic performance." Moreover, "the overall performance of public enterprises is so poor that even those African governments most philosophically committed to socialist principles are now openly voicing concern."[44]

A 1987 bank study concluded that bank and other foreign aid was a major culprit in the nationalization of African economies:

African governments have preferred to use MLT [medium- and long-term] loans for their own public investment programs and to cover their external and budgetary deficits or current account. . . . Equally evidently, foreign lenders have acquiesced with these priorities and perhaps even encouraged them. Some official sources of concessional loans may have shared the preference of governments for public investment, because it allowed foreign donors more direct involvement in the selection of projects and in procurement. Some lenders may not have wished to challenge a government's choice of a public sector executant for a given project, on the grounds that overt support for the private sector might be regarded as interfering with a nation's political sovereignty. Whatever the reason, the net result is that foreign loans have reinforced the heavy public sector bias of African investments.[45]

Further, the study pointed to other ways in which bank support of African state-owned enterprises undercuts the private sector:

Another prevalent weakness in African trade regimes is the granting of import duty exemptions to government enterprises and foreign aid financed projects. This practice subjects private enterprises to unfair competition and retards the development of domestic industries capable of making the same products, especially when such exemptions coincide with currency overvaluations and heavy domestic tax burdens on local producers.[46]

The bank has played a major role in nationalizing the development process throughout the Third World. For instance, in many countries, development finance companies have largely assumed the role of commercial banks.[47] As the World Bank noted,

A number of DFCs owe their existence to an initial World Bank commitment and continue to exist largely as favored channels for Bank financing.... The World Bank opened its loan window to governmental DFCs in 1968; several companies that had originally been largely private [in India, Pakistan, Singapore, Sri Lanka, and Nigeria] came effectively under state control. Today the great majority of DFCs in the developing world . . . are state owned."[48]

The bank study concluded that private DFCs were more efficient, had higher profits, and had "been more active in the development of capital market institutions and instruments."[49] The 1985 OED summary examined 14 DFCs, and only the two privately owned DFCs "recorded positive real returns on equity."[50]

According to bank reports, overvalued exchange rates that discourage domestic production and encourage unlimited imports have been one of modern Africa's worst economic curses. But a recent bank report concedes that foreign aid bears a primary responsibility for Africa's antidevelopment exchange rates.[51]

According to Sweder van Wijnbergen of the bank's Development Research Department, "increases in the real volume of aid cause real appreciation" in a country's foreign exchange rate.[52] Providing the government with an ample supply of foreign exchange reduces the country's need to earn foreign exchange through exports and gives the government free rein to set a grossly artificial exchange rate. Since many governments perceive a high real exchange rate as a sign of national strength, rulers use foreign aid to enhance their national image. Increased foreign reserves, by decreasing the country's need to produce goods for export, therefore allow the government to neglect or repress the private sector.

The increased exchange rate makes the aid recipient's wages higher than those of its competitors. The bank's report notes that "increased labor costs in the external sector will translate into reduced external competitiveness and a decline in exports, all as a consequence of increased aid."[53] Van Wijnbergen concludes, "Aid, even when temporary, permanently worsens export performance, unless proper policy measures are taken."[54] Thus, while the bank timidly lectures African governments on the need to adjust exchange rates and promote exports, bank aid directly subverts those countries' export sectors.

Poor investments financed by the World Bank not only waste money themselves but have also dragged down entire economies. A confidential 1986 bank report quoted a Kenyan government report: "Troubled investments have required an inordinate amount of the time of government administrators, managers and policymakers, hence diverting their attention from the more basic development needs of the nation."[55] The bank report noted, "Kenya is another country suffering from having accepted many offers of foreign assistance not well suited to its needs. The recurrent costs of efficiently maintaining and operating projects constructed with donor assistance are beyond the budget capacity of central and local governments."[56]

Even though bank studies and spokesmen repeatedly insist that the private sector is inherently more efficient than the public sector, the majority of bank lending is still going into shoring up floundering state-owned enterprises, government credit institutions, and political and bureaucratic control of the economy. Consider a few examples:

-- A 1986 $12.7 million grant to Rwanda to, among other things, strengthen the government's management of the agricultural sector. [57]

-- A 1986 $10 million grant to Zambia to bolster the government's fertilizer monopoly.[58]

-- A 1987 structural adjustment loan to Senegal to encourage public-sector reform and increase tax collection.[59]

-- A 1987 grant to Sudan to reform state-owned enterprises.[60]

-- A 1987 $34 million loan to the government of Jamaica to "assist in the creation of a financially self-sufficient sugar industry capable of meeting the demands of the export markets in the EC and the U.S. and the domestic market."[61]

The Jamaican sugar industry has for years been the victim of gross mismanagement and is incapable even of meeting the island's own demands for sugar. The bank has supported Jamaica's sugar industry since 1978. A recent World Bank press release claimed, "Since the early 1980s, the government has been implementing a major rationalization of the state-owned sugar industry as part of its broader economic adjustment effort in order to make it financially viable." Yet a 1985 confidential bank report concluded, "Despite major effort, little progress has been made at improving management of the government's sugar estates."[62] The industry is still heavily politicized and effectively controlled by the sugar workers' unions.

The World Bank has greatly increased its loans to Mexico as part of the Mexican debt bailout. As a Heritage Foundation analysis of the Mexican debt crisis noted

The World Bank is lending $950 million to government-owned enterprises for their investment programs, based upon promises that government subsidies to them will be phased out. This would seem clearly to be at cross purposes with an effort to make these enterprises more efficient or with the World Bank's purported advocacy of government-owned enterprises.[63]

The study also pointed out, "In response to the urging by World Bank officials to privatize, the government has been merging smaller or ailing state-owned enterprises into larger ones. Real divestments have been few."[64]

The bank now claims that it is reversing course and that instead of financing the expansion of political control over the economy, it is financing the reduction of political control. As before, the bank's principal method is to increase the amount of money it gives to politicians in control of national governments and public enterprises.

Boosting a government's revenues, however, is inherently self-defeating for private-sector-oriented reform. As Alan Rufus Waters, former chief economist for the Agency for International Development, noted, "Foreign aid . . . gives enormous resources and control apparatus to the local administra- tive elite and thus sustains the authoritarian attitudes corrosive to the development process."[65] Peter T. Bauer of the London School of Economics recently observed in the New Republic, "Third World rulers' policies, which have been supported for decades by official Western aid, accord with their own interests. They will modify them only if continued pursuit promises to result in economic breakdown threatening their political survival."[66]

The bank is seeking an increase in its general capital to greatly expand loan volume. It claims that it can exert a positive influence on Third World economic policy reforms, persuading recipient governments to adopt healthy pro-growth policies. Thus, a small amount of bank aid would allegedly result in a large benefit to the world's poor.

Since 1983, the bank has claimed that it has successfully encouraged policy reforms among borrowers. At the 1984 annual meeting, bank president A. W. Clausen proclaimed that "an increasing number of nations . . . have embarked on the tough policy reforms necessary to secure sustained non-inflationary growth."[67] But Ernest Stern, senior vice president for finance, recently conceded, "From the fall of 1982, when the developing-country debt crisis broke, until the end of 1984, very little was done in these [heavily indebted] coun- tries which involved any kind of structural change."[68] Stern claimed that LDCs are now busy making structural adjustments. But if bank officials deceived the public in 1984, why should we believe them now?

A New Panacea: Structural Adjustment Loans

The bank began its structural adjustment lending program in 1980 to encourage policy reform, even though it had previously claimed that its project loans were already inducing such changes. A confidential study of its structural adjustment loans (SALs), published by the bank in 1986, revealed the following:

-- During the first two or three years following approval of their first SALs, only two countries substantially reduced their budget deficits. The report noted, "The initial relatively poor budgetary performance . . . reflected inadequate implementation of the policies envisaged."[69]

-- "Not infrequently, the preparation of new loans and other work appears to have taken precedence over supervision" of policy reforms resulting from SALs.[70]

-- "As creditworthiness improved, the bank's lending program in Turkey has been expanded as well as reshaped to accommodate and support the structural adjustment process."[71] But this is simply a squandering of resources: as Turkey was able to borrow more on the private credit market, the bank increased its own loans to Turkey. The bank's lending, therefore, had little or no effect.

What have SALs gone for? Ivory Coast's SAL was used "to finance the arrears of several state agricultural enterprises," that is, to pay the debts of floundering government enterprises. Senegal's SAL paid "for the development expenditures of parastatals mainly in the agricultural sector."[72] In Pakistan, heavy aid was provided to "rationalize" parastatals, but auditors concluded that efficiency had not been increased and that the parastatals "are still making substantial losses."[73] Kenya's SAL "did not address the question of possible divestiture of the government's share in [parastatal] enterprises."[74] In Thailand, money intended to structurally adjust the economy was instead spent on civil service reform.[75]

The 1986 report noted, "Under most of the 15 SALs in the 10 countries, restrictions placed on the use of SAL funds were minimal."[76] It appears that most of the money was used to conduct business as usual. Nevertheless, the bank's report accorded it a very generous measure of success with its SAL program. The World Bank judged Bolivia "to have complied with the spirit of the Loan Agreement," even though the bank auditors concluded that "the Operation was unsuccessful; reforms were minimal and shortlived," and Bolivia's effective rate of exchange increased by almost 200 percent between 1980 and 1985.[77]

The bank's limited efforts to require reform were often defeated because of the ease with which governments could acquire other foreign aid:

The availability of alternative financial sources, often without strict conditionality, reduces the need for the Bank to provide a SAL. This was the case in Senegal and Thailand. . . . In Jamaica and Senegal, availability of substantial foreign aid led governments to decide initially that it was not necessary to evaluate or to substantially reduce budget deficits.[78]

In some ways, having the bank dole out SALs so that countries will follow its advice is a case of the blind leading the blind. In several countries, SAL funds were used to provide export subsidies.[79] This may produce impressive export statistics, but it is a poor use of resources and a violation of GATT rules on international trade.

As one World Bank official who has worked extensively with SALs noted, "In the Mexican structural adjustment loan, there was no mention of imposing limits on corruption or on capital flight--two of Mexico's biggest problems. The Bank did not even push Mexico to install a decent auditing system to control graft."[80]

In its 1986 structural adjustment loan to Mexico, the World Bank "guaranteed" Mexico a 3.5 percent growth rate; if the Mexican economy does not grow by at least that, the bank will be obliged to dole out another $500 million. First the Mexican government wrecks the economy, and then the bank comes along with free medicine for the country's ills. Yet the bank is obliged to compensate Mexico if its medicine does not work. Such arrangements may help the bank meet its loan goals, but it makes no sense to provide no-fault economic reform for irresponsible governments.

A 1985 confidential bank report by leading development experts Elliot Berg and Alan Batchelder concluded:

The SAL's seemingly hard and all-encompassing conditionality is largely illusory. . . . The Bank must shrink from the ultimate sanction, cancellation. Cessation of disbursements is too strong a response by the Bank to banal acts of non-performance. In the one case where it was done [Senegal] the SAL was replaced by new credits. Non-compliance, at least in the short run, was virtually costless to Senegal, whose share of Bank-IDA disbursement had been 50 percent higher, during July-February of fiscal 1984, than it was during fiscal 1981 and 1982.[81]

Their report also noted that even where borrowers appear to have made progress, "offsetting counter-reforms are quite common": "For example, an import licensing system can be abolished but the effects nullified by changes in foreign exchange allocations. The monopsony powers of marketing organizations can be terminated as agreed, but continuation of licensing regulations may prevent entry of private competitors."[82]

SALs are, in essence, a confession that other bank lending projects have been ineffective at securing reforms. One thing the 1986 report and other audit reports make crystal clear is that most bank projects and loans are extremely ineffective in securing policy reform in the Third World: "Philippines SAL I addressed trade and investment control policies which the Bank had been discussing in its economic dialogue without much impact for two decades. Also, under Philippines SAL II, the government agreed to correct electricity pricing problems which they had been unwilling to address despite urging and advice from the Bank over a period of two decades and seven power loans."[83] If the government was pursuing self-defeating policies in the power sector for 20 years, why did the bank persist in making seven power loans?

The 1985 annual operations evaluation summary highlighted the bank's ineffectiveness (and apathy) at obtaining policy reform in its agricultural project loans:

Where failure to comply with covenants has occurred, the Bank has generally been complaisant. Vagueness of covenant requirements, however, has generally saved both Borrower and the Bank from the embarrassment of deciding what to do. A typical reaction by the Bank, when it cannot obtain compliance, has been to tackle agricultural pricing issues as part of a subsequent operation, e.g., a structural adjustment loan, it being concluded that "the project was the appropriate vehicle to address these critical and politically sensitive issues."[84]

In other words, when governments refused to make agreed-upon changes, the bank gave them more money.

The bank and some proponents of foreign aid claim that a wave of privatization is sweeping the Third World. But according to one World Bank official, "Privatization is almost all talk. [Third World governments] offer us the bad ones for inflated prices and keep the large, prestigious ones for themselves."[85] A recent bank study on privatization "found few instances of formal liquidations in the 28 countries reviewed. . . . Sales of large numbers of enterprises are also few, occurring in only two countries, Chile and Bangladesh. The review found that partial or total sales of assetsin 15 other countries totaled fewer than 100 firms."[86]

SALs are very popular with bank management because they allow the bank to set new lending records while almost entirely disregarding how the money is used. SALs are also popular because, as the 1986 report noted, the bank can lend twice as many dollars per staff week of work with SALs than with project lending.[87]

Many of the bank's SALs are simply going to governments to repay their debts to the bank or to the International Monetary Fund. If a country defaults on its World Bank debts, the bank's credit rating may suffer, in which case it will find it more difficult to raise capital. But if the bank continues to provide a net positive transfer of capital, the country has no incentive to default. This is simply a Ponzi scheme. For example, up to 75 percent of the Mexican SAL went for debt repayments.

According to one bank official, SALs merely "postpone the day of reckoning."[88] Another bank analyst asserted, "Policy-based lending is a figleaf. This is money that was transferred so that the countries would not default and undercut trade."[89] Fear of political instability is a major factor in SAL approval.

As the 1985 confidential SAL study concluded,

Why don't governments change the policies that are holding back their development? That's the first question. The second is: what has money got to do with all this anyway? Why do external donors have to pay money to induce LDC governments to do things that we (and presumably they) believe will make them better off? . . . The theoretical or analytic structure underlying policy-based lending, and especially SAL-type lending, is very thin.[90]

How many SALs can the World Bank or IMF dole out before it becomes responsible for the economic policies of Third World governments? At some point the bank must assume responsibility for the self-destructive economic policies of these governments.

Looking at many past recipients of SALs, one wonders, What was adjusted and where is the benefit? It is difficult to understand why the bank continually pours money into economic policies that it itself proclaims are inefficient, ineffective, and wasteful. It simply makes no sense to identify a country's self-defeating policies and then lend the government money to perpetuate those policies.

SALs have allowed the bank to claim credit whenever a recipient government makes any economic reform that is not patently idiotic. Such an attitude is like that of a therapist claiming success when one of his patients does not commit suicide.

Bankrolling Communism around the Globe

Loans to communist governments have been the fastest-growing part of the bank's portfolio in the 1980s. An aid agency desperate to find new recipients has found a gold mine in the worst-managed economies in the world.

China is now the bank's second-largest borrower, after India. The World Bank rushed into China as soon as the country announced that it would consider accepting foreign loans, and the bank has been searching for justifications for its China policy ever since. In a 1984 statement, a bank official asserted, "If China is to maintain a reasonable growth rate and manageable debt service payments, it will need to obtain the necessary additional foreign capital at an average interest rate below the market rate."[91]

This statement is one of the more bizarre proclamations in the dismal history of multilateral institutions. If the bank's advice were accurate, then only through handouts could Third World countries raise themselves. In essence, the bank's statement implies that investment in the Third World cannot possibly have returns on investment greater than the prevailing interest rate. And if this is true, all commercial lending to Third World governments only drives them deeper into poverty. The bank's statement was absurd, but it was sufficient to justify a profusion of handouts to the Chinese government.

The bank claims its loans will encourage policy reform in China, especially in the private sector. But this is puzzling, because almost all of the bank's money in China is going to the public sector, and bank aid is equivalent to only 0.2 percent of China's GNP.[92]

The bank's defense of its China policy is especially puzzling because China itself is going on a foreign investment binge. The World Bank gives China money at zero interest, and then China buys property in Hong Kong, the United States, Australia, and elsewhere. An economist with Citibank estimated that China's "direct investment in property, manufacturing and services [in Hong Kong alone] topped $6 billion." In 1984, China had a net outflow of capital of $1 billion.[93] Moreover, China has its own foreign aid program, which has given more than $6 billion in recent decades, largely to leftist governments.

As the Wall Street Journal noted in 1986, "When China began its open-door policy in 1979, foreign banks rushed to offer loans."[94] China has an excellent credit rating and can borrow as much as it chooses on the private market. But the World Bank has poured over $5 billion into China in the 1980s, largely to boost its own lending goals.

The bank has long been an avid supporter of the government of Yugoslavia. A 1979 bank study, Yuaoslavia and the World Bank, still being distributed, proclaimed, "Yugoslavia's economic system allows for an integration of workers' decisionmaking and macroeconomic coordination. . . . Factories are socially owned, belonging to the people of Yugoslavia as a whole as opposed to the state."[95] The bank's seal of approval for Yugoslavia did much to increase the attractiveness of the Yugoslavian model of development in the Third World and to increase Western commercial capital flows to the government. The bank's assertion that "factories are socially owned" sounds idealistic, but as Milovan Djilas, the well-known Yugoslav dissident who helped Tito found the regime, has noted, social ownership is an illusion because bureaucrats are still in control.

The bank has plowed over $4.7 billion into Yugoslavia, including a $275 million structural adjustment loan in 1983 to improve "the efficiency and competitiveness of the economy." But as the New York Times reported, "Yugoslavia has several competing steel mills with surplus capacity, more refineries than can be economically useful, a railroad system with eight competing segments that snarl transportation, and expensive new mines that produce unsalable low-grade ore. A World Bank report concluded that the government invested too much in agricultural processing facilities and not enough in crop production."[96]

A recent World Bank report concluded that "since 1980, . although severe austerity measures have been introduced, the macroeconomic policies have not been reformed significantly."[97] As of July 1987, "real interest rates are still negative, and the intended reforms related to financial discipline, investment criteria and foreign exchange and credit allocation are not yet in place, six years after the outbreak of the crisis."[98]

Hungary is the latest Eastern bloc World Bank star. Since Hungary joined the bank in 1982, the bank has lent it $1.3 billion. The bank has been active in cofinancing loans to the Hungarian government and has been an unwavering supporter of loans to this Warsaw Pact nation.

On the occasion of a $140 million loan to Hungary for industrial restructuring, the bank's press release announced that "the loan is a follow-on to one made in May 1986. It will help the government maintain the momentum of the reform process and the restructuring of the industry."[99] But Hungarian reform is largely an illusion and a failure. Planecon, the most widely respected private newsletter on Eastern European economic developments, recently predicted that Hungary would have a severe economic crisis, including loan default or rescheduling by 1988.[100] Planecon concluded, "What is needed in Hungary is the political will to bite the bullet and put into effect what has been promised for years," and it derided the government's policies of "reform on paper, but not in substance."

Hungary now has one of the highest per capita debts in the world; the economy is slowly collapsing, and living standards have fallen sharply in the 1980s. Within-plant "unemployment" in Hungary has been estimated at 15 to 25 percent of Hungary's industrial labor force.[101] Hungarian technology expert Laszlo Pal notes, "It can be proven by facts that our backwardness compared to the industrially developed countries is growing year by year."[102] Hungary continues to be handicapped by its heavy reliance on the Council for Mutual Economic Assistance, or, as it is commonly called in Eastern Europe, the Council for Mutual Exchange of Inefficiency.

The majority of bank loans to Hungary have been squandered on the government's attempt to buy peace with its oppressed citizens. One bank loan officer reportedly said, "We would not want political instability in Hungary, would we?"[103]

Apparently, in the view of the bank's management, there is plenty of room for all of the Soviet bloc's credit risks on Western charity rolls. Poland recently joined the bank and is reportedly about to receive a $50 million loan. According to Planecon, Bulgaria is considering joining the World Bank.[104] Other Marxist governments that have benefited from World Bank assistance include Romania ($2.2 billion), Mozambique ($165 million), Laos ($57 million), and South Yemen ($210 million).

Most important, the Soviet Union appears to be on the verge of gaining World Bank membership and subsidized loans. Conable stated last fall that he would be "happy" to consider Soviet membership, and Undersecretary of State John Whitehead said in March 1987 that the United States "would like to see the Soviet Union become a member of" the World Bank, IMF, and GATT.[105] A leading Indian newspaper has already proclaimed that Soviet bank membership will mean easier terms for borrowing countries.[106]

Conable declared last year, "Obviously, while I have some prejudice in favor of market resolution of difficulties, an institution like the World Bank cannot take a rigid position on such things. . . . The question is, Is the economy that is centrally directed putting incentives in place that will create conditions for promoting economic growth?"[107]

This sounds open-minded, but how does one put incentives in place while preserving central planning? The bank has doled out over $11 billion trying to reform socialism while preserving political control of the economy. And nowhere does the bank have any success stories--except, of course, in the annual increase in its lending levels.

The World Bank's Environmental Debacles

The World Bank has routinely shown little or no concern for the environmental effects of its projects. This is not because bank officers personally are indifferent to environmental issues but because the bank in general has little idea of the effects of its projects.

Even though the bank clearly recognizes the severity of environmental problems in the Third World, it continues funding some of the most pernicious projects around the globe and considering others that could do even more damage in the future.

In Kenya, the World Bank has invested some $29 million in the Bura irrigation scheme. But when President Daniel Arap Moi toured the site recently, he found "eroded irrigation canals, abandoned plots, poor crops, tumbledown and unsanitary housing, zebra grazing on irrigated land, and an air of general desolation and decay."[108] According to African Business, "a confidential World Bank mid-term evaluation report at the beginning of 1985 reported that Bura's tenants, aside from being so disaffected that a fifth of them had deserted their plots, suffered mortality and morbidity [rates] several times higher than the national average." Even though the project had invested almost $50,000 per family to be benefited, the bank report found severe malnutrition widespread among "beneficiaries." Correspondent Barbara Gunnell concluded, "The real loser is the Kenyan government, or as President Moi pointed out, future generations of Kenyans who will go on paying World Bank interest on the loan. . . . Loan repayments will be just as high as if the World Bank's economic appraisal that the scheme could expect a 13 percent rate of return had been correct."[109]

In Indonesia, the transmigration project is also devastating the tropical forests and squandering millions of dollars. The project makes almost no economic sense and pointlessly destroys the environment. The World Bank estimates that the total cost per family of resettling on Irian Jaya is about $7,000, or roughly 10 times Indonesia's per capita income. A United Nations Development Program study found that only 1 in 10 transmigration sites was considered economically profitable. [110]

Bruce Rich claims that transmigration is "ecologically disastrous in its very conception."[111] As the leader of a campaign by environmentalists to force the bank to alter its lending patterns, Rich notes that "Western aid agencies are currently channeling approximately three-quarters of their forestry assistance to Indonesia for environmental rehabilitation activities such as watershed management, reforestation and land rehabilitation--while some of the same agencies are simultaneously financing the deforestation, watershed erosion and land deterioration that is occurring in many transmigration sites."[112] An Indonesian government report recently complained that "an unfortunate cycle of destruction and reha- bilitation is becoming institutionalized." [113]

In Brazil, the bank has plowed over half a billion dollars into the Polonoroeste project to develop part of the Amazon region. This project is razing the Amazon Basin; already, an area the size of Great Britain has been deforested. Moreover, thanks to bank-financed roads, over 500,000 settlers have poured into western Brazil. But the majority of them have become snared in an economic quagmire, and about 200,000 have caught a particularly virulent strain of malaria.[114]

As in the tropical forests of Indonesia, soil productivity in the Amazon region has been poor, and the dreams of new farmers have been dashed. Marie Allegretti of Brazil's Institute of Socio-Economic Studies notes, "The turnover of the settlers in the new projects is shocking--in the Cujubim project, perhaps as many as 80 percent of those who received titles have left in 4 years."[115]

The World Bank also recently gave a $450 million loan to Brazil for hydroelectric projects, even though the bank's president conceded that one of the dams was "an ill-conceived project which has had substantial negative effects on the environment and on the AmerIndian population."[116] Hugh W. Foster, U.S. representative to the bank's board of executive directors, complained that the loan was "pure folly," that it would finance "a series of environmental disasters," and that resettlement efforts were sure to cause "extensive human suffering and bitter recriminations."[117] Foster concluded:

Major environmental questions, to all appearances, are being swept under the rug. . . . The Bank does not now have, nor will it in the future ever have, financial resources sufficient to pass out half billion dollar chunks of money to recapitalize financially mismanaged public sector enterprises on the basis of vague promises. [118]

Elsewhere, the bank has made a major contribution to the desertification of Botswana. Two livestock projects to promote cattle raising in this Texas-sized southern African nation have resulted in serious overgrazing, caused the deaths of hundreds of thousands of migratory animals, and depressed "the already limited subsistence capabilities of [Botswana's] poorer citizens," according to a report by two consultants to the bank. They concluded in 1982 that "it would be better if the Bank withdrew as firmly and rapidly as possible from the support of commercial ranch development in Botswana."[119] According to a report by the United Nations Environmental Project, "The degradation of the rangelands caused by over- grazing is doubtless the most serious environmental problem facing Botswana, and it forms the major constraint on the raising of the productivity of the land and thus the standard of living in rural areas."[120]

In 1985, however, the bank gave Botswana $17 million for a third livestock project, which appears destined to repeat many of the same mistakes. The U.S. embassy in Botswana complained that the project "will have no ability to increase cattle production as marketed offtake or to stop the degradation of range resources." [121]

The bank is spending almost half a billion dollars to dam up the largest westward-flowing river in India, a massive scheme that will displace over two million people, flood 900 square kilometers, and destroy 33,000 hectares of the country's dwindling forest cover, including some of its best teak and bamboo. A study by the Indian Council of Science and Technology predicted that the dam will result in increased malaria, cholera, viral encephalitis, goiter, and other waterborne diseases. The bank approved the plan with a minimal environmental impact statement and has since refused to seriously consider undeniable environmental problems.[122]

In India and elsewhere, the bank has routinely funded irrigation systems but has paid little attention to the often-devastating results. Twenty-eight percent of all World Bank lending for agricultural projects has gone for irrigation assistance.[123] But as a recent World Resources Institute report noted, "Borrowing governments have frequently failed to live up to loan conditions and covenants in World Bank irrigation credits obliging them to raise irrigation charges or take equivalent steps, sometimes reneging repeatedly, but the World Bank has rarely taken action."[124] Furthermore, according to the report, the effects of many malfunctioning bank irrigation projects have been devastating:

Diseases have spread, whole communities have been displaced and valuable crop and forest lands have been flooded. . . . Tens of millions of [hectares of] agricultural land have been lost through waterlogging and salinization. . . . In India, 10 million hectares have been lost to cultivation through waterlogging, and 25 million hectares are threatened by salinization. In Pakistan, more than half the Indus Basin canal system command area, some 12 million hectares, is waterlogged, and 40 percent is saline. Worldwide, FAO estimates, half the world's irrigated land is salinized badly enough that yields are affected.[125]

How Some Third World Governments Help Themselves

All aid provided to Third World governments is fungible. Providing these governments with another dollar for food aid allows them to spend the dollar they would have used to prevent starvation on hiring more bureaucrats or buying more weapons. In this sense, each additional dollar of aid is only as productive as the least useful recipient government's spending of its own money.

An examination of some of the policies and practices of World Bank recipient governments makes one doubt whether any amount of aid would allow these countries to become economically self-sufficient. Even though both countries profess to be drowning in debt, Nigeria and Argentina are spending billions to build lavish new capital cities. Many Third World leaders, including Mobuto Sese Seko of Zaire, Jose Lopez Portillo of Mexico, and Ferdinand Marcos of the Philippines, became billionaires while performing their official duties. In Indonesia, Malaysia, Mexico, and elsewhere, the economy is rigged to provide millions in kickbacks to powerful politicians and their friends and families.

Why should Western governments tax their citizens in order to facilitate increased government waste in the Third World? Economists have coined a word, "kleptocracy," to describe how some LDC governments systematically rob their own people. By lending governments billions that it knows will be squandered or stolen, the bank sells Third World citizens into debt slavery while allowing their rulers to stuff their pockets.

If the bank is serious about providing capital only to countries following productive economic policies, how can it justify giving a single dollar to Ethiopia, Mozambique, or Laos? David A. Dunn, the bank's Ethiopia desk chief, insists, "We apply standards of economic management and efficiency to Ethiopia as we do any other country, and clearly we've decided their performance is good enough to justify continued lending."[126] Short of staging a nuclear attack on its own capital city, what would a country have to do to convince the World Bank that its policies do not deserve support?

The bank claims that the United States benefits from its contributions because for each dollar the United States contributes, U.S. businesses get 82 cents in purchase orders from LDCs. But as Peter Bauer said, this is "like saying that a shop-keeper benefits from having his cash register burgled so long as the burglar spends part of the proceeds in his store."[127]

Western governments cannot wrap themselves in a cloak of virtue because of their bank donations. At the same time as Western aid to LDCs has increased, the United States and Europe have raised new barriers against LDC imports. First we give them money to make them more productive, and then we refuse to allow them to sell us what they produce.

It would be more beneficial, and far more effective at encouraging healthy LDC economic policies, if the West simply stopped giving handouts and simultaneously abolished trade barriers against LDC imports. Dominican Republic farmers would benefit more from open access to Western sugar markets than from handouts to their government, which politicians use to increase their control over agriculture. U.S. citizens, instead of being taxed to underwrite boondoggles in Timbuktu, could buy goods at lower prices. Free trade would mean less waste and more efficiency here and abroad, rather than higher taxes here and more government intervention throughout the world.

Conclusion

Has the World Bank helped the Third World? Some countries have benefited, but most of the long-term aid recipients have only ended up with heavy debt loads, swollen public sectors, and overvalued exchange rates. Instead of spurring reform, most aid programs have simply allowed governments to perpetuate their mistakes. As one IMF official described the impact of foreign aid on Zambia, "It is fair to say that what we have done is to allow Zambia to maintain a standard of living for its civil servants [whose payroll amounts to 20 percent of the country's gross domestic product] which is totally out of sync with the rest of the economy."[128]

After scores of structural and sector adjustment loans, and after thousands of "reform covenants" in bank project loans, most LDCs still have policies that would qualify them for an economic insane asylum. If the bank has been unable to straighten out Third World economic policies after disbursing over one hundred billion dollars in loans and handouts, what chance is there that increased bank lending will correct these problems in the future?

The World Bank's activities have been especially harmful because of its indiscriminate use of its "seal of approval." Barber Conable recently bragged, "Look at the foreign aid program: the World Bank is one of the most cost-effective elements, largely because $1 from the World Bank brings in $4 from the rest of the world."[129] Conable judged the bank's cost-effectiveness solely by the amount of resources transferred to Third World governments, with no concern for how those resources are used and abused. The bank routinely exhorts Western banks to continue lending to LDCs even after those countries have effectively defaulted on previous loans.

The World Bank has had a destabilizing influence on the international financial system; it has encouraged huge expansions of doubtful loans, failed to encourage reductions in lending when its research departments should have spotted warning signs, and dogmatically viewed all transfers of resources as inherently beneficial. But the ultimate question is, Are more bad loans good for the world economy?

World Bank loans either go directly to the recipient government or must be guaranteed by the government. Thus, World Bank aid inevitably increases the politicization of Third World economies--even while bank economists lecture on the need for politicians to stop throttling the marketplace. The costs of politicizing aid are far greater than the cost of interest payments on private credit.

The bank claims that it needs to provide more aid to Third World economies to help them grow. But the bank itself is based on an outdated theory of development economics, which assumes that all Third World economies need for growth is to be provided with capital handouts and modern technology.[130] Now that economists are beginning to realize that domestic economic policies are more important for growth than international welfare is, the World Bank no longer has a clear rationale for existing.

Critics assert that adjustment requires austerity and that the developed nations must give LDC governments extra aid to help them adjust. But in most cases what is needed is not belt tightening but simply that governments loosen the noose that is strangling their own economies. It is not belt tightening to allow farmers to receive market value for their crops, thus greatly increasing harvests. It is not belt tightening to stop arbitrarily seizing the assets of private businesses. It is not belt tightening to privatize the operations of state-owned companies that are sinking the government's budget. It is not belt tightening to reduce tax rates that are so high as to choke off income-generating activity. And it is not belt tightening to remove the pervasive restrictions on foreign investment that characterize almost all the Third World's troubled debtors.

The case is often made that loans to LDCs should be increased because capital can be used better in the Third World. This advice may be well received in freshman economics classes, but it is unconvincing to anyone who has visited Tanzania. As Harvard demographer Nicholas Eberstadt observed, "The rights to private property, personal liberty, due processes and even to life itself are routinely ignored or violated by the overwhelming majority of sub-Saharan states."[131] If a government is not trustworthy, how can it expect to be judged creditworthy?

For much of Latin America, the debt crisis would be largely "solved" if the citizens decided that the government could be trusted and called home tens of billions of dollars in "flight capital" that they had placed overseas to avoid expropriation. If a country's own citizens don't trust their government, why should the World Bank squander Western tax dollars subsidizing it?

Third World economic development would be aided more by foreign investment than by World Bank welfare. Yet as World Bank aid has increased, more and more countries have created barriers to foreign investment, thereby retarding their own development.

Five World Bank borrowers--Peru, Nicaragua, Syria, Guyana, and Liberia--have effectively defaulted on their bank loans.[132] Yet the bank wants to expand its lending in order to keep a net positive flow of assets to its debtors-- to continue giving them $5 so they can repay $3. This may be in the bank's interest but it benefits no one else.

The bank was created because commercial banks were leery of lending to sovereign governments. In the past 20 years, private lending to sovereign governments has exploded. If the private credit market for sovereign borrowers has any fault, it is that it is too generous to doubtful governments. In almost every case, World Bank loans now go either to countries that squander the money or to countries that could obtain private loans.

What the bank can do that private lenders cannot or will not do is provide money on easy terms to uncreditworthy borrowers. But every bank handout increases a recipient government's ability to act irresponsibly and sabotage its own economy and reduces its need to rely on private credit markets. As the bank's report on exchange rates has shown, bank aid boosts a country's real exchange rate, thus making it less likely that the country will become self-sufficient.

Who benefits now from the World Bank, aside from inept Third World rulers and the bank's own employees?

A few years ago the bank was considering establishing a commercial affiliate that would borrow in world capital markets and lend to LDCs at a profit. This is a good idea for the bank as a whole. If the bank never gets another dollar from the U.S., West German, or Japanese treasuries, it will still be able to lend over $13 billion a year because of its huge reserves and repayments of previous loans.

The bank should be required to support itself by selling bonds and existing on its own creditworthiness. Once Western governments stopped handing out money to the bank, its obsession with its loan levels would cease, and it could begin to make sound economic judgments. It would no longer have an incentive to back unproductive projects and incorrigible kleptocracies.

Giving countries money that will be badly used is worse than not giving them any money at all. Empowering corrupt and inept politicians to rule over their people has nothing to do with real development.

Perpetual structural adjustment loans for politicians who perpetually maul their economies and impoverish their subjects are an exercise in futility. If real policy reforms are made, people will have genuine incentives to invest or to lend these governments money. And if no real reforms are made, giving them money will only continue to squander capital and postpone the day of reckoning.

The less money the bank has, the more likely it is that its net effect on development will be positive. As long as the bank suffers from its current "have money, must lend" syndrome, it will continue pouring billions into floundering socialist regimes, inefficient government corporations, and harebrained mass migration schemes. A poorer bank would be a wiser bank and a better friend to the Third World.

FOOTNOTES

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[2] Jonathan E. Sanford, "World Bank Activities in Ethiopia," report prepared for the Congressional Research Service, Library of Congress (May 1987), p. 15.

[3] "An Interview with the President of the World Bank Conable," Le Monde, July 25, 1987. Conable, however, was counting only International Bank for Reconstruction and Development lending. If International Development Association lending is included, the total is $17.7 billion. See "Lending, Disbursements Up Sharply," World Bank News, July 16, 1987, which reported that "loans and credits totaled $17.7 billion. The comparable figure for FY 86 was $16.3 billion."

[4] World Bank, "Twelfth Annual Review of Project Performance Results" (1987), p. 48.

[5] Cited in A. Hughes, "Is the World Bank Biting Off More Than It Can Chew?" Forbes, May 26, 1980, p. 123.

[6] "The World Bank: A Change of Pace," Economist, September 27, 1986, p. 5.

[7] Cited in World Bank, "Daily News Summary," August 3, 1987.

[8] Washington Post, May 1, 1976, p. B8.

[9] See John P. Powelson and Richard Stock, The Peasant Betrayed (Boston: Oelgeschlager, Gunn, and Hain, 1986), pp. 49-66.

[10] Shirley Scheibla, "Asian Sinking Fund: The World Bank Is Helping to Finance Vietnam," Barron's, September 3, 1979, p. 7.

[11] Ibid.

[12] The Indonesian government is simultaneously resettling the Javanese people on the island of East Timor, which the army seized in 1975. The army's subsequent butcheries and forced starvation policies killed an estimated 150,000 of the island's 600,000 inhabitants. See James Bovard, "Behind the Words at the World Bank," Wall Street Journal, September 30, 1985, p. 18.

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[14] Cited in "A Catalogue of Failures," Ecologist no. 2/3 (1986). The article did not identify the Indonesian newspaper.

[15] Anderson.

[16] Kenneth Davidson, "Pathetic Attitude to Indonesia," Melbourne Age, June 1, 1986.

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[21] Economist Intelligence Unit, "Uganda, Ethiopia, Somalia, Djibouti," Ouarterly Economic Review no. 2 (1987), p. 26.

[22] Philip Revzin, "With Famine Easing, Ethiopians Are Fleeing Collectivizing of Farms," Wall Street Journal, May 27, 1986, P. 1.

[23] See Sanford.

[24] World Bank, "Ethiopia to Expand Forest Plantations," IDA news release no. 87/1, July 8, 1986.

[25] John R. Nellis, "Public Enterprises in Sub-Saharan Africa," World Bank (1986), p. 4.

[26] World Bank, "770,000 Ethiopian Farm Families to Benefit from Livestock Project," IDA news release no. 87/61, March 5, 1987.

[27] Quoted in Malcolm Gladwell, "Harnessing the World Bank to the West," Insight, February 9, 1987.

[28] Anonymous, interview with author, August 6, 1987.

[29] Sanford.

[30] Testimony of Bruce Rich, House Subcommittee on International Development Institutions and Finance: Hearing on Environmental Performance of the Multilateral Development Banks, April 8, 1987.

[31] Ibid.

[32] World Bank, "Twelfth Annual Review," p. 28.

[33] Ibid., p. 84.

[34] Ibid., p. 68.

[35] Ibid., p. 71.

[36] Ibid., p. 69.

[37] Ibid., p. 48. Emphasis added.

[38] World Bank, "Accelerated Development in Sub-Saharan Africa," 1981, p. 47.

[39] World Bank, "1985 Annual Review of Project Performance Results," 1985, p. viii.

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[73] Ibid., 53.

[74] Ibid., p. 52.

[75] Berg and Batchelder, p. 21.

[76] World Bank, "Structural Adjustment Lending: A First Review," p. 17.

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