80236

Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

USING HISTORY TO INFORM DEVELOPMENT POLICY

The Role of Archives

Workshop Summary

October 25–26, 2012
The World Bank
Washington, DC
worldbank.org/historyworkshop

Keynote Address

Glance Back, Drive Forward: Reflections on the World Bank's History

Devesh Kapur

Madan Lal Sobti Associate Professor for the Study of Contemporary India and Director, Center for the Advanced Study of India, University of Pennsylvania

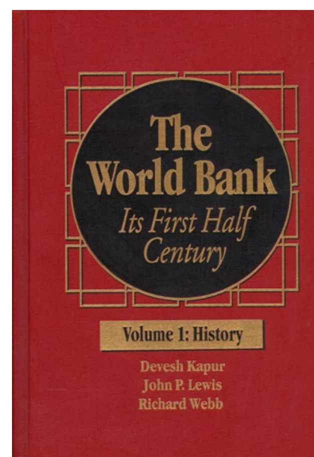
dkapur@sas.upenn.edu

In a sense, the history of changing ideas of development is most encapsulated and embodied in the history of the World Bank itself

The title of this talk relates to one of my first interviews with former World Bank president Robert McNamara, conducted for the book *The World Bank: Its First Half Century* (Washington, DC: Brookings Institution Press, 1997). My coauthors and I were asking him about various incidents, and he would spend barely a minute on our question and then shift the topic to what he was doing then, such as agricultural development in Africa (his passion at the time).

Reflecting on this, one of my coauthors, John P. Lewis (who had briefly served with McNamara in the Kennedy administration), remarked that if McNamara were to drive a car, he would almost never look back through the rearview mirror.

A few years later, as we were nearing completion of the book, a new president of the World Bank came in and he invited us to his house. He said that he wanted to learn from the history. So we went there, and as soon as we sat down he said, "Well, let me tell you the 10 things I'm going to do, all these innovations." So he went through the 10. I, being much younger then and therefore much less prudent than my coauthors, unwisely went through each of the 10 innovations and how and when the Bank had already tried them and with what consequences . . . at which point the interview was over and we left.



What that experience taught me is that by definition everything is innovative if there is no history. Without history, there is no past; everything is new.

I have to confess that writing the Bank's history was personally expensive for all of us. We weren't paid in the last year and it was financially hard. But I have to say that it was the most fabulous intellectual experience anyone could have. Especially for me, as a young scholar starting off in his career, writing the Bank's history was like being a kid in a candy store. The sheer intellectual range—issue areas, countries, people whom one got to meet and interview, talk to, read about—was unparalleled, and I would never exchange that experience for anything.

I owe a deep debt of gratitude to many people in the Bank—and to its archives (and archivists) and a small treasure-house few people have access to, the Executive Directors' Library, which also houses the transcripts of all the Board meetings. I still have warm memories of that archival experience. Some of you who are older might remember a person called Ernie Stern—perhaps one of the most powerful senior managers in the Bank's history. I must have read around 24,000 memos by Ernie Stern alone. And I have to say that if you ever want to teach participants in the Bank's Young Professionals Program how to write concisely and precisely—and sometimes with brutal frankness—get them to read his memos. For me, reading those memos was a wonderful way to learn about what was happening around the world—and in the Bank.

Demystifying the Bank

What I wanted to share with you is what we sought to do in writing the Bank's history and my reflections on the broad themes, the principal threads as it were, of that history. I think first of all we wanted to demystify the Bank, in the sense of just laying it open more, especially to developing countries. Much to our regret, despite all the efforts and resources that went into writing the Bank's history, for many years the book was virtually invisible. It was reviewed almost nowhere. We wanted to have it translated and brought out in cheap editions in the languages of the developing countries. That was the way to empower them, not by having it circulate in a very expensive edition that hardly anyone could afford. But that did not happen. Fortunately, now it is freely available on the web.

We also wanted to have a sense of what the Bank meant for its principal stakeholders—the borrowers and major shareholders. So we put together a parallel volume that looked at aspects of the Bank's history from specific vantage points. Indeed, the usual parallel when we think about history is the Rashomon analogy that there is a subjectivity of perception depending on one's vantage point. To this end we invited various well-known people to write papers on different subjects, whether a view from capital markets, from a low- or middle-income borrower, or from a major nonborrowing shareholder. I have to say that the attempt was not very successful—in part because many of the authors had little access to related historical records on their end—and we had to put in a lot of effort to improve many of those papers.

That experience taught me two lessons: First, just because someone is a big name does not mean that that person can write thoughtful and well-researched papers. And second, the history of the development of many countries is better found in the archives of the Bank than in the countries themselves. The second fact should not be forgotten, for it tells how records are kept by countries themselves, how they think about their own histories.

Unlike for the first Bank history, in this case there was consensus that one of the authors should come from a developing country. Originally, the current prime minister of India, Manmohan Singh, was considered as a coauthor along with John P. Lewis, a Princeton University professor who had a long and distinguished career in the development field, especially in South Asia. The Bank, however, made the point that the expertise of both prospective authors was in South Asia and a more diversified expertise might be better. So Richard Webb, who had been the governor of the Central Bank of Peru and had worked at the World Bank in the 1970s, became the second coauthor. I joined as the head of research and gradually became the third coauthor. So that is the background on how I got involved in the project.

A History of Ideas

If we ask ourselves what the big themes of this history are, I think the fundamental guiding principle, what we sought to write about in this history, was a history of ideas—the ideas that have shaped development. In a sense, the history of changing ideas of development is most encapsulated and embodied in the history of the World Bank itself. What struck me then—and continues to strike me now—is how strongly the Bank, and the ideas that have shaped it, are rooted in and influenced by the

Anglo-Saxon world, whether through language or the enormous influence that university economics departments, especially in the northeastern United States, have always had and continue to have on the Bank.

In the 1950s planning (and planning models) was the flavor of the day among academics in the economics departments of elite northeastern universities (and in the United Kingdom). A quarter century later the same elite northeastern universities said what a terrible idea it was. If the Harvards and MITs were pushing planning in the Bank in the 1950s—fast-forward to 60 years later, the same small set of elite universities is shaping the latest new ideas (or fads, depending on one's point of view), such as randomized trials. In between there have been social cost-benefit analysis, general equilibrium models, cross-country regressions—ideas that have modest half-lives, alive only until they are pushed aside by the next set of ideas, all of which are as much about the incentives of academia as they are about development.

Make no mistake; I am not putting a value judgment on the interplay of ideas between academia and the World Bank. That's just the way it was. And I do believe that it continues to be like that, for better and for worse.

In the history of ideas, one of the things you see, then and now, is a perennial tension that the Bank has faced with respect to development: is it about people or countries? A poignant example is a personal memo that World Bank President Barber Conable wrote to then chief economist Stan Fischer, after returning from a trip to Africa that included a visit to a country in the Sahel. In the memo Conable said that this country was a giant sandbox—what could the Bank do there? Indeed, one could argue that the best thing the Bank could have done there was to give everyone in that country a one-way ticket out of it. And herein lies the problem. Should the Bank care about a country or about the well-being of the people of that country, whether they live there or somewhere else? But of course the structure of international organizations is such that it is necessary to work with the countries first, and then with people.

This tension around sovereignty has also been reflected in perennial debates on governance and lending. Poorly governed *countries* are less deserving of Bank lending, but the *people* of the same countries are in greater need of lending—precisely because they need help to counter the adverse effects of poor governance. But more lending might simply be pouring water onto sand.

The Context Shaping the History

A second thread that runs through the Bank's history (and that was bypassed in the first official history of the Bank) is just how much its history until the late 1980s was shaped by the Cold War. This fact comes out repeatedly through that history. The person who really made the Bank in a sense, its second president, John McCloy, was serving as president of the Bank at the same time that he was also engaged in laying the foundations for the U.S. Central Intelligence Agency. Now that's a very interesting juxtaposition—something that would become impossible in later years. But it shows that in the Bank's early years the relationship for those at the top was seamless, and certainly the relationship between which countries to favor in lending and which not to was very much shaped by the Cold War–driven geopolitics. Given that relationship, it is not surprising that Keynes was insistent that the Bank not be located in Washington. He wanted it to be located in New York, believing that Wall Street's influence could be leveraged to counter political pressures from Washington, because he knew that location mattered and that the location would also shape influence.

If one looks back at the Bank's lending in the 1950s, it was directed almost entirely to the rim countries around the Soviet Union. Only after Castro came to power in 1959 did the Bank really begin to focus on Latin America. It made almost no loans to the region in the 1950s. In the 1970s, as the Cold War shifted to Africa, the Bank steered its course accordingly. This, of course, was valid only until

the end of the Cold War, but I think that it certainly affected the DNA of the institution.

The other part of the context that has shaped the Bank is the nature of the competition that it has faced. This began with the International Bank for Reconstruction and Development—IBRD. The *R* was dropped almost immediately, as soon as competition from the Marshall Plan drove the Bank out of the business of reconstruction in war-ravaged Europe. In the 1950s the biggest potential competitor was the U.S. Ex-Im Bank, and the Bank's management lobbied hard to try and shut it down. In the same decade the Bank also lobbied hard against the creation of IDA (the International Development Association). But once it became clear that such a fund might be lodged in the United Nations, the Bank turned around and brought IDA under its umbrella. The Bank did not take competition from regional development banks seriously until the 1990s, by which time several of them had grown to a comparable size in their region.

Throughout the Bank's history its relationship with foreign aid has been mixed. As a coordinator of and secretariat to the DAC (the Development Assistance Committee of the Organisation for Economic Co-operation and Development), the Bank has welcomed the complementarity of foreign aid to its own role. But the relationship has been contentious as well, with the Bank believing that the foreign aid driven by foreign policy concerns crowded out the discipline that the Bank sought to impose on its borrowers. And of course the biggest competition in the 1970s and around the 2000s was financial markets. One can't understand the Bank's nonperformance in Latin America in the 1970s unless one realizes how easily the region's countries could access global finance from private banks, desperate to recycle their huge surpluses of petrodollars. And I'm absolutely sure that in the next phase of the history of the World Bank we'll be looking at the competition from China.

The Search for Autonomy

A third theme that emerges from our history is the agency of the Bank. How autonomous is the Bank in doing what it wants to do? What are the forces from which it seeks autonomy? And I have always felt that this is not well understood: a key trait of the Bank that has shaped its autonomy has been its financial design. Indeed, for any organization, financial autonomy is the key to functional autonomy. That was one reason why the Bank, in the early decades, worked very hard to prove itself as a bank, and there were numerous occasions when the Bank's management balanced the influence of the White House and the Treasury with counterpressure from Wall Street.

But the United States had less leverage in the day-to-day running of the Bank than is commonly understood, and even less in later years. The influence was more strategic: shared understandings on country and sectoral priorities and no-go areas, on the scale and timing of capital increases, and of course on the selection of the Bank's president and often its senior management as well. By itself the United States could not vote down loans or the annual budget, which has by and large been a consensus affair.

Surprisingly, except for one incident that I'm aware of, the Board of Executive Directors has not used the annual approval of the budget to pressure the Bank in any significant way. That exception was in 1986, when Barber Conable had just joined as the new president—and it was meant as a signal that led to the major reorganization of 1987, which was a traumatic experience for the Bank.

The critical pressure point on IBRD has been at the time of capital increases. In each capital increase major shareholders have sought to shape or reshape the Bank's policies. But because capital increases occur so rarely (just four times in the case of IBRD: in 1959, 1979, 1988, and 2010), major shareholders have looked to other mechanisms to pressure the Bank.

Two additional points relating to the Bank's capital are worth noting. First, the importance of the paid-in portion of the Bank's capital in its equity declined over time, and annual transfers from net income became the principal source of increases in the Bank's equity. And second, the comfort afforded

to capital markets by the callable-capital portion of the Bank's capital waned over time with the realization that if it were ever called all bets would be off. Instead, borrowers' scrupulous record in servicing their debts became more important. These trends, however, were not reflected in concomitant changes in the Bank's shareholding.

What fundamentally changed the Bank's search for autonomy, as well as what it sought to do with it and how it sought to achieve it, was the creation of IDA. While IDA allowed the Bank to expand both the scope and the scale of its lending, it also—if one simply scrambles the letters—made the Bank in some respects like AID (the U.S. Agency for International Development), politicized and bureaucratized. The pressures on the Bank from major shareholders grew over time, and the window through which those pressures arrived was the replenishment of IDA.

If larger nonborrowing shareholders have used capital increases and replenishments to advance their agendas, smaller nonborrowing shareholders have given the Bank "trust funds" to lubricate their own. While trust funds undoubtedly have some beneficial effects, they do subvert the governance of the institution, since they mean that the budget approved by the Bank's Board does not fully reflect the institution's operational priorities. It is interesting that the Bank has always been careful about telling developing country members about the dangers of off-budget financing and its implications. Trust funds in some sense are really no different than off-budget financing.

The Role of Contingency

A fourth theme that emerges in the Bank's history is the role of contingency. The social sciences are not very comfortable with contingency because science is science and one should be able to generalize. But whether in the histories of individuals or organizations, contingency plays a far bigger role than we think. And I will tell you a story that illustrates this. I could make a case to you that the reason I'm standing here is the PLO (the Palestine Liberation Organization). Why would you think that the PLO has anything to do with it?

Well, in 1980 the PLO applied for observer status at the World Bank–International Monetary Fund meetings. The Bank had rapidly expanded lending under McNamara in the 1970s. But in the aftermath of the 1979 (second) oil shock it was being shut out of global capital markets. In the early decades the Bank, under its Articles of Agreement, needed a country's approval to borrow in its capital markets, and at this time the Bank's borrowing program was facing constraints. IDA was once again being argued on Capitol Hill. McNamara, who was never very popular on the Hill, desperately needed to get IDA through as well as a much-needed capital increase. The last thing he wanted was for the PLO to attend the annual meetings in Washington, which would have sent members of Congress into apoplexy.

Under the rules of the Bank at that time, the Board of Governors had to approve any entity's request for observer status. Let us just say that the voting process was handled creatively, and the decision not to invite the PLO went through with the narrowest of margins. This led to strong reactions among the PLO's supporters. Later, amid the uproar, a committee chaired by Robert Muldoon, then New Zealand's prime minister, was appointed to review the electoral process, which had clearly been shaped to get the desired outcome.

With the PLO denied permission, McNamara had dodged a bullet in Congress, but he faced another problem. The only countries that then had the money to support the Bank's growing borrowing program were Middle Eastern countries, especially Saudi Arabia. The Bank was negotiating a large borrowing from the Saudi Arabian Monetary Agency, and the Saudis were furious at the way the Bank, as they saw it, had (mis)handled the PLO observer vote. Now one interesting thing—and I'm sure many of you are aware of this—is that when important countries become upset at the Bank, one way that the Bank has tried to placate them is to give them a senior management appointment.

Indeed, this incident had several consequences. Around this time the Bank's chief economist, Hollis Chenery, was stepping down, creating an opening. The search committee that was formed

recommended Michael Bruno, the governor of the Bank of Israel and an Israeli citizen. At that point in time this choice was not going to go down well. So Bruno was passed over (he would become chief economist of the Bank a decade later and the PLO would be invited as an observer in 1994, following the signing of the Oslo Accord between Israel and the PLO), although there were some other factors as well. Anne Krueger became chief economist instead, and her staunch pro-market views had significant effects on the Bank's intellectual role. Important for my purposes—and the reason that I am standing here—is that Ibrahim Shihata (who was from Egypt) was appointed as the Bank's general counsel, the first from a developing country.

Shihata was one of the most influential general counsels of the Bank and the architect of the Multilateral Investment Guarantee Agency. But he also played a key role in protecting the writing of our official Bank history. Under the terms of the contract that was signed when we began to write the history, we had full access to all Bank documents and correspondence. But the Bank retained the right to ask the authors to excise any direct quotation that might adversely affect relations with a member country. My coauthors and I felt that we wanted to tell the history by using as much as possible what the Bank's staff and management had produced—the countless memos and reports. In other words, by using the Bank's own words rather than simply putting our interpretation on them.

So we decided to force the issue not by having a few quotations but by having thousands of them, because if the Bank decided to kill direct quotations, it would have to kill the entire official history. Shihata was sympathetic to the idea, and despite the pressure he strongly backed us and ensured that we were not asked to cut any quotation or change any interpretation. And so the role of contingency, the PLO, and the Bank's history are interlinked. Now one could always argue that with any contingency, as with all histories, we never know what the counterfactuals would have been. And that, of course, always makes for interesting discussion.

Institutions and Organizations

A fifth theme that emerges is the distinction between institutions and organizations. The role of institutions in development has received much attention in the past two decades. One can think of the Bank (along with the International Monetary Fund and the United Nations) as part of the postwar institutional architecture of global governance. But if one closely examines the internal workings of the Bank—that is, the Bank as an organization rather than in its institutional guise—one gets the sense that institutions might be the skeleton but that organizations provide the flesh and blood. While numerous institutions have been set up, few have developed the organizational capabilities and competencies that make them actually function over the long term. (One can have an independent central bank with all the formal features that economists love. But if one puts a bunch of monkeys in charge of an independent central bank, that independence will be moot.)

It is this singular feature of the history of the Bank as an organization—how it grows over time, its much greater diversity in terms of nationality or gender or the country of location of staff. But as the Bank grows, its history is also a story of how the very success of earlier years propels it into becoming a much larger organization, and as that happens the barnacles of bureaucracy begin to encrust the institution with procedural fealty. The Bank began to OD on ODs (Operational Directives). (Having to read these was by far the most painful part of writing the history.) While multiple bureaucratic layers and complex systems and procedures are inevitable for large organizations, they do have an adverse impact on creativity and particularly on the willingness to take risks. Taking swipes at bad projects is easy; knowing the costs of not undertaking good projects because of greater risk aversion is much harder.

Thinking about Performance and Accountability

This leads me to my sixth historical thread: how should we think about the Bank's performance and accountability?

After I wrote my first draft chapter, my senior coauthors each took me out for lunch. I was much younger than they were, and my first draft was very critical of the Bank: this has failed, that hasn't worked, this was oversold, and so on. Richard Webb returned my draft with the pages swamped with red ink. He said that I should consider taking out every adjective and adverb—their abundance signaled that I was being intellectually lazy. The adjective and adverb, he argued, must come into your readers' minds from the strength of evidence and the logic of the argument rather than by being force-fed to them.

My other coauthor, John P. Lewis, who had worked on development for nearly four decades, like a good American used a sports analogy. He said, suppose someone from Mars came down and was taken to a baseball game. And someone said, look, this guy is a tremendous hitter; his batting average is .350. The man from Mars would say, my God, a 65 percent failure rate! And Lewis said, look, only if you know how hard the game is would you appreciate that a batting average of .350 is actually pretty darn good. If development were easy, why would one need the Bank?

One of the things, of course, about the Bank is that it succeeds best in countries that need it the least: the Chinas, Japans, and Koreas. And it fails most, of course, in the countries that need it the most—but where others fare scarcely better.

A bean-counting approach to performance outcomes can have its own perverse effects. This happened in the 1990s, when we were writing the history, and made the Bank much more risk averse than it had been and in some ways less intellectually honest about the development enterprise. It failed to defend the position that development necessarily entails risks and trade-offs and hence failures are inevitable. How does one know whether doing 10 projects painstakingly, with all the bells and whistles that lead to "success," is better for the overall development enterprise than doing 20 projects with a 30 percent failure rate? Is it more fruitful to think less about failures per se and to think carefully about who bears the cost of those failures?

An important indicator of the Bank's performance—but one that cannot be picked up through more quantitative analysis of the Bank—is its role in killing off bad projects. Only if one looks carefully into Bank documents does this unheralded contribution of the Bank become apparent, since almost by definition a project that is nixed does not show up in official performance indicators. An issue much debated today might help illustrate this point: the Bank's role in combating corruption.

Some have argued that the Bank did not pay attention to this key issue in the early decades. One explanation may be that it did not do so because corruption wasn't that big a deal then. A second explanation might lie in the changing perception of the sacrosanct nature of sovereignty and the willingness of the international system to question its limits. A third might be that even when the issue's salience was becoming apparent, the Bank took an ostrich-like approach and simply tried to ignore it.

The historical record is more complex. To take an example: In the early 1950s a senior manager of the Bank visited Cuba and met with Batista, the then president. At a managing committee meeting he reported back, saying that since "Batista is a corrupt bastard" the Bank should not give him a cent. That was it. There was no thick report with multiple annexes and chest-thumping.

Indeed, in the early years specific lending decisions drew considerably on staff with deep sectoral experience. Thus the documentation making the case for the first loan to a developing country—to Chile for electric power—was just a few pages. Decades later the documentation for Bank-financed electric power projects would be far thicker. Yet there is no evidence that the later projects performed better than the first. One could argue, of course, that one is comparing apples with oranges. But this example also tells a little about the changing human capital composition in the Bank. People with deep sectoral experience gradually got pushed out, especially by economists after the creation of the Young Professionals Program.

To return to our discussion on corruption, one of the most striking transcripts is of a conversation of McNamara with Indonesian president Suharto in the late 1970s. The technocrats in Indonesia (the so-called Berkeley mafia) had become worried about the mounting levels of corruption. Recognizing their own limited influence on the president, they tacitly asked the Bank to quietly try and warn Suharto. The only person with the stature to deliver this message was McNamara, who flew to Jakarta. The transcript of the conversation is fascinating as McNamara appeals to the nationalism in Suharto and warns of the dangers of the "cancer of corruption" to the Indonesian nation. One of the major differences over the decades is that while controversial messages in earlier years were more likely to be delivered in private, since the 1990s they have been given more publicly, reflecting in part the greater transparency in public institutions.

The Question of Comparative Advantage

This leads me to my seventh thread, a question that has been raised periodically in the Bank's history: what is the Bank's comparative advantage? Where does it lie (countries, sectors, issues), and should the Bank try (or has it tried) to develop a more dynamic comparative advantage? The question is not just about what it should do (which countries or sectors) but the modalities of engagement. Provide money or advice—or a combination of the two, and if so, in what proportions? Deliver important messages in private or in public? We live in an age with far greater pressures to be more public and to disclose information much more overtly. But has that come at the cost of candidness, leading to anodyne fluff? How close to the client should the Bank be? After all, there is a slippery slope between embeddedness and capture. And with "stakeholder" terminology proliferating, who is the client?

The Iron Law of Unintended Consequences

The last theme that emerges through the Bank's history is the "iron law of unintended consequences." At the time we were writing the history, the "Washington Consensus" was much in vogue. Since then many have sharply criticized it—indeed, a whole industry has grown up around trying to slay the "neoliberal monster" that the Washington Consensus supposedly gave birth to.

The Washington Consensus—with its emphasis on global integration, rolling back the state, and privileging the role of markets and the private sector—came toward the end of the Latin American debt crisis and the beginning of the collapse of the Soviet Union. It reflected an "end of history" moment, with the West at the zenith of its power. The creation of the World Trade Organization with an agenda reflecting the West's preoccupations, the multiple financial crises afflicting developing countries in the 1990s (the Mexican, Asian, and Russian financial crises)—all seemed to reaffirm the West's dominance and the advancement of its hegemonic agenda about economic development through multilateral institutions that it controls and influences the most (the Bretton Woods institutions and the newly created World Trade Organization). And of course the Bank was very much a part of this.

Fast-forward to a decade and a half after the 1997 Asian financial crisis, as "the rise of the rest" and the relative decline of the West have become the new conventional wisdom. Could it be that the Washington Consensus was the best thing that happened to developing countries at a meta-level, reshaping the locus of global economic power in ways that the forces most gung ho about pushing it on developing countries never imagined?

I'll end with two thoughts. Be careful about any teleological interpretation of history—or of development. And be careful about what you ask for—sometimes you might get it. And sometimes you have to be careful about whom you ask to write your history.