INTERNATIONAL ECONOMIC POLICY

36. *The World* **Bank** *and the* **International** *Monetary Fund*

Fifty years ago the United States led the soon-to-be victorious allies in creating the International Monetary Fund, the World Bank, and other so-called Bretton Woods Institutions. America has always been the largest contributor to those organizations, as well as to the four regional imitators that were subsequently created. Unfortunately, the multilateral development banks have proved to be expensive failures, doing more to retard than to advance economic progress throughout the developing world. For that reason the 104th Congress should

- **terminate U.S. contributions to the IMF and the World Bank;**
- **defund the regional development banks, which include the Inter-American Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the African Development Bank.**

The International Monetary Fund

The IMF was originally created to help nations suffering balance-of-payment difficulties. When President Richard Nixon closed what was left of the gold window in 1971, the fund's function disappeared, but the IMF was soon providing more credit than ever.

The fund makes general loans to governments, theoretically to assist them in promoting economic development. But the results of nearly 50 years of lending have been impoverishment, indebtedness, and dependence around the globe. In some cases, the Philippines and Zaire, for instance, foreign transfers were blatantly looted. In others, the money was wasted on inefficient prestige projects, which turned out to be permanent, money-losing black holes. And even what were once thought to be the best of investments—docks, factories, and roads—are deteriorating and have become enormous financial drains on many poor nations.

Of course, all aid agencies, especially those that lend for specific projects, have suffered those sorts of debacles. Perhaps a better test of the effectiveness of the IMF, then, is how many developing countries have ever "graduated" from fund loan programs. Even friends of the organization have trouble pointing to many examples. Richard Feinberg and Catherine Gwin of the Overseas Development Council, for instance, concluded in 1989 that "the record of IMF-assisted adjustment efforts in Sub-Saharan Africa is discouraging." Economist Jeffrey Sachs said that most fund agreements "are now honored in the breach." Even the fund acknowledges a declining compliance rate in recent years.

As a result, the organization has been subsidizing the world's economic basket cases for years, without apparent beneficial effect. Through 1993 eleven nations, including Egypt, India, Sudan, Turkey, and Yugoslavia (until its disintegration), had relied on IMF aid for more than 30 years; 32 had been borrowers for between 20 and 29 years; and 41, almost one-fourth of the world's nations, had been using fund credit for between 10 and 19 years. While the fund has not necessarily caused countries to become permanently dependent on foreign funds, its efforts have not helped nations achieve self-sustaining growth.

There are several problems with the IMF, including its reliance on inappropriate conditions and lack of effective enforcement. The main difficulty, however, is that when the borrowers' overall economic policies remain badly distorted, foreign assistance effectively subsidizes the very causes of poor nations' problems. For instance, the fund's biggest clients have included Argentina, Brazil, Mexico, and Yugoslavia, all of which persistently promulgated anti-growth, *dirigiste* policies despite IMF loans and conditions. IMF support for the odious Ceausescu regime in Romania suggests that fund officials lacked consciences as well as common sense.

Alas, that dreadful record has had no impact on the fund's management. In the fall of 1989 Michel Camdessus, the IMF's managing director, told the annual World Bank-IMF meeting that increasing his organization's capital would be "the cheapest way for taxpayers in the richer countries to come to the aid of the poor." In fact, the only people who would be helped by additional U.S. contributions to the IMF would be Camdessus and his associates.

The World Bank

Bank officials have as few doubts about their institution's role as does Camdessus about the fund; in September 1986 bank president Barber

Conable declared that "the Bank's role is to lead," and few disagreed. The bank, established along with the IMF to reorder the global economic system in the aftermath of World War n, was envisioned as a "lender of last resort" to assist developing countries only when the global capital markets proved inadequate.

However, bank policy changed dramatically during the 1960s and 1970s, causing lending to increase nearly 13-fold under bank president Robert McNamara. Admitted one bank official at the time, "We're like a Soviet factory. The push is to maximize lending. The . . . pressures to lend are enormous and a lot of people spend sleepless nights wondering how they can unload projects. Our ability to influence projects in a way that makes sense is completely undermined."

The bank, originally viewed as a back-up to help countries create the infrastructure necessary to encourage private investment, became the chief financier of government-led economic programs. During the 1970s the bank committed roughly 80 percent of its funds to public enterprises. There were, in fact, few money-losing state entities in such heavy borrowers as Argentina, Brazil, India, and Mexico that were not subsidized year in and year out by the bank. Today those nations' new, market-oriented governments are attempting to privatize their many old, bank-funded mistakes.

Moreover, the bank promoted development at any cost, whether to human rights or to the environment. Bank funds underwrote Julius Nyerere's coercive *ujamaa* population relocation program, which brutalized Tanzanian peasants in the 1970s and devastated the nation's agricultural economy. The bank supported Indonesia's forced transmigration project. Millions of farmers were victimized by bank-backed water programs that forced them off their land without compensation. Bank lending underwrote the destruction of the Brazilian rain forest; other subsidized development projects promoted deforestation, desertification, and flooding around the globe.

Little changed in the 1980s, when the bank funded dictators such as Romania's Ceausescu and Ethiopia's Mengistu. Not surprisingly, an internal Operations Evaluation Department report in 1987 conceded that "the Bank's drive to reach lending targets" had led to "poor project performance." In the same year auditors judged more than one-third of the bank's rural lending projects, which accounted for roughly half of total bank lending over the previous two decades, to be failures.

The bank's primary problem is not that it backs bad projects, though many are bad, but that it, like the IMF, has regularly underwritten govern-

ments that foster overall economic environments that preclude self-sustaining development. One bank evaluation found that 54 percent of agricultural projects between 1979 and 1984 were adversely affected by price controls and similar misguided regulations. Concluded the auditors, "It has become clear that it is not possible to implement viable projects in an unfavorable policy environment." Yet bank lending only increased.

To meet outside criticism during the 1980s, the bank embarked upon a program of so-called adjustment lending—policy reform loans much like those offered by the IMF. But the bank has remained too dedicated to expanding its lending to cut off recalcitrant borrowers. A devastating internal study, the 1992 Wapenhans report, concluded that staffers were reluctant "to take a firm stand with Borrowers," preferring to ignore or waive noncompliance. As a result, "the high incidence of non-compliance undermines the Bank's credibility." Even Senior Vice President Stern was forced to admit that "time and again the best of policy intentions, the best of policy letters solemnly agreed to and signed by the finance minister and Bank, broke down."

In the end, countries will adopt politically painful reforms only if they possess the political will to do so. And they will generate that commitment only if forced to confront the price of their economic failures. Alas, the bank essentially handed alcoholic borrowers a fistful of $100 notes and told them to drink no more; after the money was squandered the bank demanded repayment. That policy did not work during the 1960s, 1970s, or 1980s; it will work no better today, even if bank officials are more adept at voicing free-market rhetoric as they issue checks. A better model is provided by Vietnam, which began seriously loosening state economic controls after having been cut off from Soviet aid and barred from borrowing from the IMF and the World Bank. Countries determined to reform their economies do not need outside aid; those receiving outside aid will face less economic pressure to continue reforming. Americans' money should no longer underwrite an institution that has produced so few positive results at such high costs.

The Regional Development Banks

Smaller versions of the World Bank abound: the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. The United States is, naturally, the largest contributor to every one.

Those regional banks have all followed the same flawed lending policies as the World Bank: the IDB, for instance, has subsidized many of the same Latin American fiscal black holes as has the World Bank. The ADB has wasted billions of dollars in some of the worst economies on earth; the institution itself is currently in both administrative and fiscal chaos. The EBRD is better managed but nevertheless has little to show for its efforts. After its first two years of operations, the EBRD had spent $300 million in overhead expenses, $80 million on its headquarters building alone. When then-president Jacques Attali found that the Travertine marble in the lobby did not suit his taste, he spent $1.1 million to replace it with Carrara marble. All told, the EBRD's annual per employee cost has been an astounding $237,000. Attali, later fired by an exasperated board, explained that he felt a "duty to provide [Bank employees] with a very good environment."

Conclusion

For years foreign aid from a multitude of sources has helped cover financial losses and sustain economies throughout the Third World, pushing off the borrowers' days of reckoning. Today poorer states are left with both huge debts and low growth. The answer is economic reform, not more foreign loans. Once reforms are in place, private credit and investment will follow naturally. The transition will, of course, be painful, but in the long term no amount of lending by the IMF, the World Bank, and regional institutions can prevent economic pain.

Even without further American contributions, the repayment of past loans would allow those organizations to continue lending tens of billions of dollars a year. Moreover, private corporations, associations, banks, and individuals would remain free to risk their own money by making loans (or grants) to foreign nations and their citizens. But the end of the Cold War has eliminated even the barest justification for forcing American taxpayers—to the tune of $2 billion in 1995—to simultaneously underwrite bloated lending bureaucracies and their clients, the wealthy ruling elites of recipient countries. There would be no need for further American financial support even if the multilateral development banks were doing a good job, which they most certainly are not. The 104th Congress should end U.S. funding for all of those institutions.

Suggested Readings

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