ROBERT WADE

SHOWDOWN AT THE WORLD BANK

In April 2000, as anti-globalization protesters prepared to descend on Washington, the World Bank's former chief economist, Joseph Stiglitz, published an article in the *New Republic* which began:

> Next week's meeting of the International Monetary Fund will bring to Washington, DC many of the same demonstrators who trashed the World Trade Organization in Seattle last fall. They'll say the IMF is arrogant. They'll say the IMF is secretive and insulated from democratic accountability. They'll say the IMF's economic 'remedies' often make things worse—turning slowdowns into recessions and recessions into depressions. And they'll have a point. I was chief economist at the World Bank from 1996 until last November, during the gravest global economic crisis in a half-century. I saw how the IMF, in tandem with the US Treasury Department, responded. And I was appalled.[1]

Stiglitz went on to detail his criticisms of the IMF's handling of the 1997–98 East Asian crisis. He pointed out that the countries of the region had liberalized their financial and capital markets in the early 1990s not because they needed to attract more funds (savings rates were already 30 per cent or more) but under international pressure—particularly from the US Treasury. In Thailand, the flood of short-term capital—'the kind that looks for the highest return in the next day, week or month, as opposed to long-term investment in things like factories'—helped fuel an unsustainable real-estate boom; in 1997, when the hot money flowed out again, the bubble burst. The baht collapsed, the stock-

market plunged. Japanese banks and other investors pulled out, not just from Thailand but from other regional economies, too. In doing so, they precipitated a far worse crisis. The IMF's response was to impose the same tight fiscal monetary policies on Thailand as they had on Latin America in the 1980s, 'delivering the same medicine to each ailing nation that showed up on its doorstep'.

As the World Bank's chief economist, Stiglitz began lobbying for change. He argued that the East Asian countries were already running budgetary surpluses—actually starving the economy of much-needed investment in education and infrastructure (both essential to economic growth). The IMF's austerity policies were only making the situation worse. High interest rates were devastating debt-laden local firms, leading to a rash of bankruptcies. Cuts in government expenditure were only shrinking the economy further. When he made these points at a Kuala Lumpur meeting of finance ministers and central bank governors in late 1997, the Fund's Managing Director Michel Camdessus replied that East Asia simply had to grit it out. As unemployment increased tenfold and real wages plummeted, the Fund demanded that the Indonesian government cut food and fuel subsidies. Cynical political interests stoked the ensuing violence. The social fabric was unravelling anyway, but IMF policies made the disintegration worse.

Stiglitz had no doubts as to where these policies were coming from. Building free capital markets into the basic architecture of the world economy had long been, in the words of the US Treasury's (then) Deputy Secretary Lawrence Summers, 'our most crucial international priority'.[2] 'To what extent', Stiglitz asked, 'did the IMF and the Treasury Department push policies that actually contributed to the increased

---

[1] Joseph Stiglitz, 'What I Learned at the World Economic Crisis', *New Republic,* 17 April 2000.

[2] Lawrence Summers, 'America's Role in Global Economic Integration', *Integrating National Economies: The Next Steps,* Brookings Institution, Washington, DC, 9 January 1997. Well after the Asian crisis began, Treasury Secretary Rubin was reiterating that 'global capital flows have been an enormous boon to growth in countries around the world, lifting millions of people out of poverty—this is especially true in the dynamic, rapidly industrializing countries of East Asia', even urging 'China would also benefit by opening itself more widely to foreign investment, allowing foreign firms to bring their expertise and capital to the Chinese market'. Robert Rubin, 'Remarks to the National Center for APEC', Seattle, WA, 18 September 1997.

global economic volatility?' And 'did America—and the IMF—push policies because we, or they, believed the policies would help East Asia, or because we believed they would benefit financial interests in the United States and the advanced industrialist world?'

Doctrine of enlargement

A central aim of US economic policy since the Second World War has been the worldwide acceptance of free-market ideology—the belief that the free flow of goods, services and capital is to the mutual benefit of all; that corporations should be managed for the maximization of shareholder-value; that stock-markets should be used for buying and selling corporate control; and that governments should intervene only in cases of obvious market failure. If the US can persuade powerful segments of national elites to embrace these goals for themselves, it can achieve its foreign economic policy objectives far more cheaply and effectively than through either negotiations or coercion. Once national elites accept the idea of the mutual benefits of free trade and free capital movements, they can dismiss critics of the free market as defenders of special interests, at the expense of the general good. During the Cold War, the goal of opening the world's markets had to be balanced against that of containing communism. Since 1991, in the words of US National Security Advisor Anthony Lake,

> the successor to a doctrine of containment must be a *strategy of enlargement*, enlargement of the world's free community of market democracies. During the Cold War, even children understood America's security mission: as they looked at those maps on their schoolroom walls, they knew we were trying to contain the creeping expansion of that big, red blob. Today . . . we might visualize our security mission as promoting the enlargement of the 'blue areas' of market democracies.[3]

The multilateral economic organizations—above all, the IMF and World Bank—have been important vehicles for this strategy. But here the US faces a dilemma. On the one hand, it wants these organizations to be pushing hard for its free-market policy objectives, and so needs to ensure that appointment procedures yield people who will promote them. On the other hand, the Bretton Woods institutions need to appear to be

---

[3] National Security Affairs Presidential Assistant Anthony Lake, speech of 21 September 1993; emphasis added.

acting in accordance with the wishes of the collectivity of member governments, rather than by Treasury dictate. Otherwise, they risk losing the legitimating force of multilateralism and may end up less effective in achieving US aims, in the long run.

The World Bank has been an especially useful instrument for projecting American influence in developing countries, and one over which the US maintains discreet but firm institutional control. The Bank's president is effectively chosen by the United States (which has 17 per cent of votes cast, as compared to 6 per cent for Japan [at number two] and 4.7 per cent for Germany [number three]). It is also the only member state able to exercise a veto on various key constitutional issues. It makes the single biggest contribution to the International Development Agency—the Bank's soft-loan affiliate, dedicated to lending to the poorest countries; and since the US Congress, alone among member legislatures, has to approve not only the tri-annual pledges to the Agency but also the annual release of pledged funds, there are unique opportunities for American legislators and their friends to impose conditions of their own.[4] In addition, it is American thinking about the roles of governments and markets that sets the conceptual centre of gravity for World Bank debates, rather than that of Europe, Japan or the developing countries.[5] The vast majority of Bank economists, whatever their nationalities, have a postgraduate qualification from a North American university (as is indeed true of large numbers of the world's elite opinion leaders). And there are many subtle ways in which the Bank's location—in the heart of Washington DC, just a few blocks from the White House, Treasury and Washington think-tanks—helps contribute to the way in which American premisses structure the very mindset of most Bank staff, who read American newspapers, watch American TV and use American English as their lingua franca.

'Any signal of displeasure by the US executive director has an almost palpable impact on the Bank leadership and staff, whether the signal is an explicit complaint or simply the executive director's request for

---

[4] Catherine Gwin, 'US relations with the World Bank', in *The World Bank: Its First Half Century*, vol. 2, *Perspectives*, Brookings Institution, Washington, DC 1997, pp. 195–274.

[5] On the differences between such thinking, see Bruno Frey et al., 'Consensus and Dissensus among Economists: An Empirical Enquiry', *American Economic Review*, vol. 74, no. 5, 1984, pp. 986–94.

information on a problem,' one observer has noted.[6] Nevertheless, the US rarely resorts to proactive interventions, preferring to use negative power—to ensure, above all, that senior Bank people who do or say things contrary to Treasury wishes can be silenced or fired.

More than just a source of funds to be offered or withheld, the World Bank is a fount of Anglo-American ideas on how an economy—and, increasingly, a polity—should be run. The role of the World Bank's chief economist is a critical one from this point of view. The Bank's legitimacy rests on the claim that its development advice reflects the best possible technical research, a justification readily cited by borrowing governments when imposing Bank policies on their unwilling populations. The chief economist has much influence over what research is done and by whom: what evidence is accepted, what conclusions are drawn and how these are advertised; hence, much influence over what constitutes 'the best technical research'. So when Joseph Stiglitz began criticizing the IMF/World Bank free-market policies in East Asia, and particularly their promulgation of unrestricted short-term capital flow—even advising the Ethiopian government on how to resist IMF demands that it open up its financial system—Treasury reacted strongly. Summers—now Treasury Secretary—asked World Bank President James Wolfensohn to rein him in.

Wolfensohn, however, was initially hesitant to do so, and not only because of Stiglitz's prestige in the outside world—he was widely seen as a Nobel Prize-winner-in-waiting for his work on the economics of information. Wolfensohn—an ex-Wall Street Democrat with close ties to the White House—had his own criticisms of the neo-liberal 'Washington Consensus' and had drawn on some of Stiglitz's ideas about partnership and participation in writing the new Comprehensive Development Framework which he proposed for the Bank.[7] Wolfensohn's relationship with the Treasury, and with Summers in particular, had been stormy. The

[6] William Ascher, 'The World Bank and US Control', in Margaret Karns and Karen Mingst, eds, *The United States and Multilateral Institutions: Patterns of Changing Instrumentality and Influence*, London 1992, p. 124.

[7] See the common themes in James Wolfensohn, 'The Challenge of Inclusion', World Bank, 23 September 1997; 'The Other Crisis', World Bank, 6 October 1998; 'Coalitions for Change', World Bank, 28 September 1999 and Joseph Stiglitz, 'Towards a New Paradigm for Development: Strategies, Policies and Processes', World Bank, 19 October 1998; 'Participation and Development: Perspectives from the Comprehensive Development Paradigm', World Bank, 27 February 1999.

assertive Summers, himself a former chief economist of the Bank, made no secret that Wolfensohn was not his choice as president. From the beginning he had little compunction about telling him what to do. Staff around Wolfensohn (no less strong-minded) learned that a Summers telephone call was likely to plunge their boss into a foul mood—all the more so by 1999 as the decision time for Wolfensohn's second term drew near, and he no longer felt able to tell Summers when to get lost.

Wolfensohn's price

Wolfensohn badly wanted a second term, not least to consolidate his claim to the all-important Nobel Prize. Summers, by far the most powerful figure in the Clinton Cabinet, had the main voice in the decision. In essence, Summers made his support conditional on Stiglitz's non-renewal. Wolfensohn agreed. He announced Stiglitz's resignation as the Bank's chief economist in November 1999—just before Seattle; but, he added, Stiglitz would stay on as his own 'special advisor'. As Stiglitz would explain: 'it became very clear to me that working from the inside was not leading to responses at the speed at which responses were needed. And when dealing with policies as misguided as I believe these policies were, you have to either speak out or resign . . . Rather than muzzle myself, or be muzzled, I decided to leave.'[8]

Stiglitz had many opponents inside the Bank, and not only among those who—riding high before his arrival—shared the ideological disposition of the IMF and the Treasury and had not taken kindly to Stiglitz's criticism. Even those—including some of his own managers and research staff—who agreed with Stiglitz's views on the limitations of free markets could be heard to say that he was treating the Bank like a travel agency and neglecting his internal roles of mentoring staff, debating economic strategy and directing the research complex. He often forgot to thank those he left carrying the can. The staff reciprocated, awarding him bottom marks in the Staff Attitude Survey of 1999. Wolfensohn's own tribute at Stiglitz's farewell was somewhat barbed: he declared himself a great admirer of 'someone I understand I have met in the past few years—when he wasn't travelling'.[9]

---

[8] Louis Uchitelle, 'World Bank economist felt he had to silence his criticism or quit', *New York Times*, 2 December 1999.
[9] *Financial Times*, 27 June 2000.

It was scarcely two months after this, in January 2000, that one of Stiglitz's own appointees, Ravi Kanbur, produced that year's draft *World Development Report* on poverty. The *WDR,* published annually, is the World Bank's flagship publication; its image of independence is carefully nurtured, since the message is meant to be based on empirical evidence and, of course, 'the best' technical research. The *Reports* are theme-based and run to between two and three hundred pages; recent titles have focused on *The State in a Changing World* (1997), *Knowledge for Development* (1998–99) and *Entering the 21st Century* (1999–2000). Core budgets range from $3.5 to $5 million, handsomely supplemented by contributions from trust funds and foundations. Each *WDR* has a print run of at least 50,000 in English (over 100,000 in some cases), and the *Reports* are translated into seven languages.[10] *WDR* directorships, then, are important positions for defining what ideas the Bank projects. Each director is chosen by the chief economist, with the approval of the president. The director and chief economist then pick a team of between five and ten full-time authors (most of them Bank staff members), plus consultants and administrators. They normally have about eighteen months to prepare the report. Drafts are circulated for internal discussion, and member governments also get to comment.

Ravi Kanbur, a distinguished professor of development economics, had been brought in by Stiglitz to direct the team writing the *WDR* 2000, *Attacking Poverty*. This was always going to be a sensitive subject: poverty reduction is the very core of the Bank's mission and is the focus of the most passionate debates in the whole of development studies. Kanbur was chosen for several reasons. He had been a Bank insider (chief economist of the Africa region), but was now at Cornell—this, plus his identity as a British-educated developing-country national, helped secure the *WDR's* reputation as independent. He was also known to be broadly sympathetic to the views about development sketched by Wolfensohn in

---

[10] The Bank produces about 50,000 copies of the *WDR* summary across the seven languages (Chinese, German, French, Spanish, Japanese, Russian and Vietnamese). In comparison, UNCTAD's annual *Trade and Development Report*—the only multilateral development report to provide serious economic challenges to heartland free-market views—has a print run of only about 12,000 in English, plus another 7,000–8,000 copies in the other five official languages of the UN (Chinese, Russian, French, Spanish, Arabic). It is produced on a shoestring budget of less than $700,000. UNDP's *Human Development Report* has a print run of 100,000 in 12 languages, with a budget of roughly $1.5 million.

the Comprehensive Development Framework and elaborated by Stiglitz and his advisors—a minority position among development economists in the Anglo-American tradition. Jagdish Bhagwati and T. N. Srinivasan, for example, had argued that Wolfensohn's and Stiglitz's views, if translated into Bank policy, would encourage countries to adopt measures which would slow growth—and, in turn, poverty reduction—as in India in the fifties, sixties and seventies.

The 'business' of empowerment

The January 2000 'red-cover' draft *Report* contained much that was anathema to Treasury thinking. A long section on world capital markets allocated some blame for the East Asian crisis to the rapid opening up of markets to short-term capital flows, spoke favourably of Malaysian and Chilean capital controls and advocated such restrictions as normal instruments of economic management in developing countries. Although the *Report* began by recognizing the importance of economic growth—'the engine of poverty reduction'—it also stressed 'empowerment, security and opportunity' as the key ingredients of its strategy, and discussed the three in that order, highlighting the first two over the more growth-oriented section on 'opportunity'.

Highly controversial, in IMF/World Bank circles, was the section on empowering the impoverished: how to create or scale up organizations of the poor—networks, cooperatives, trade unions and the like—so as to articulate their interests in the political and market realms; and how to make state organizations more responsive to their citizens.[11] The *Report*

---

[11] This section was a particular challenge. Everyone on the team knew that the report had to endorse democracy and empowerment as good for development and poverty reduction: this was the message decided by the Bank. But how to prove it? They could use Amartya Sen's *Democracy as Freedom*, arguing that democracy was both an instrumental good and an intrinsic value, part of the very concept of development; also Judith Tendler's *Good Government in the Tropics*, on a single-state experiment in Brazil; the standard cases of Kerala and Sri Lanka; and voluminous cross-country regressions showing democracy as good for just about everything. Other evidence, however, would give democracy a more equivocal report. The cross-country regression results are open to question, and the cases of China, Singapore, pre-1987 Taiwan and South Korea are difficult to square with the gospel (as is democratic but developmentally unsuccessful India). The issue for the authors, then, was how to give a ringing endorsement to democracy and its apolitical cousin, empowerment, while acknowledging this ambiguity.

drew extensively on the 'Consultations with the Poor' exercise that the Bank had been running since 1998, a combination of new and existing participatory studies involving some 60,000 people in sixty countries. Drafts were reviewed via an intensive, independently moderated electronic consultation involving 1,523 subscribers in eighty countries, a project on a far bigger scale than had been attempted for any other *WDR*. The Bank had, in fact, been widely praised for this, and some non-governmental organizations saw Kanbur's approach as promising evidence of a growing openness to alternative perspectives on development issues. The *Report*'s attitude to security was also controversial, arguing that effective safety nets should be created before free-market reforms are pushed through. Without safety nets, the reforms will create losers with nothing to fall back on.

The 'empowerment' section attracted immediate criticism, ranging from 'why is this stuff being given priority over growth?' to 'these chapters pander to noisy and nosy NGOs'—and, best of all, 'the Bank should not be in the business of empowerment'. On the question of security, many critics argued that, while social safety nets were needed they had to be built simultaneously with market reforms, not made a precondition for them. From Yale, T. N. Srinivasan launched an attack on the report's conceptual foundations. 'Security, opportunity and empowerment could at best be termed as diagnostics and at worst as three symptoms of the disease or syndrome of poverty, but they certainly do not provide an analytical engine.' He also argued that the report lacked causal analysis, taking cross-country regressions too literally as the basis for policy judgements. Angus Deaton sent in scathing remarks from Princeton. Some of the Bank's own leading macroeconomists joined in the barrage, charging that the draft short-changed economic growth, despite its opening declaration.[12]

It was at this stage, with criticism building on Kanbur's *Report* and protesters massing for the Spring Meetings of the IMF and World Bank, that Stiglitz's *New Republic* article on the handling of the East Asian crisis appeared. Summers was reported as being close to apoplexy. He rang Wolfensohn and spoke to him in a way that Wolfensohn

[12] See David Dollar and Aart Kraay, 'Growth *is* good for the poor', Development Research Group, The World Bank, March 2000 (written and discussed before the red-cover draft *WDR* was produced). Dollar and Kraay disassociated themselves from the popular portrayal of their paper as a manifesto for growth-is-everything: letter to the *Economist,* 24 June 2000.

was spoken to by few others. He told him that all connexions between Stiglitz and the Bank had to be severed. Wolfensohn called Stiglitz to his office for a tense and testy meeting, told him he was no longer a special advisor and no longer welcome in the Bank. Stiglitz pointed out that the 'optics' would not be good if he were fired so soon after the *New Republic* piece. Wolfensohn threatened that if the story leaked he would call a press conference and denounce him. Stiglitz took this as blackmail. Meanwhile, Stanley Fischer, deputy managing director of the IMF and Summers's ally, called a special staff meeting to discuss how the Fund was going to respond to Stiglitz's article. He informed the gathering that Wolfensohn had agreed to fire Stiglitz, to the delight of all.

The US Treasury's comments on Kanbur's draft *Report* came in at about this time and read quite differently to those of other member governments—their tone stiffened, no doubt, by the anti-globalization demonstrations.[13] They especially stressed the need for emphasis on higher economic growth—and on freer markets, as the route to growth. The Treasury had seen Seattle, in particular, as a worryingly unequal alliance between well-organized, traditional forces of Western protectionism and naïve, pro-development NGOs. The apparent success of the alliance in obstructing the conference—and the fact that, with an election in prospect, President Clinton chose not to take on the forces of US protectionism in his address—raised the importance of stressing open markets, both in the Treasury and in parts of the Bank. In oral comments on the January draft, US officials made statements like 'give them [NGOs, trade unionists and the like] an inch of nuance and they'll take a mile of protection'. (At the same time, however, Treasury, alert to White House needs, also called for more emphasis on core labour standards, leading one *WDR* insider to characterize the Treasury message as 'growth, growth, growth, plus labour standards'.)

---

[13] Other elements behind Treasury's comments included the not always smooth relationship between Summers and Kanbur when Summers was chief economist at the Bank and Kanbur reported to him on Africa; Treasury's anger at Stiglitz, which spilt over onto Stiglitz's appointee; and Summer's anger at the Bank—specifically, Stiglitz and Boris Pleskovic—having invited Jeffrey Sachs to be a keynote speaker at the Annual Bank Conference on Development Economics that month (April 2000). How, Summers wondered, could the Bank give a hostile critic a keynote address right after the anti-Bank demonstrations at the Spring Meetings? Summers had seen the posters advertising the forthcoming conference, with Sachs's name prominently displayed. He had complained loudly, and the instruction went out from a senior manager to take them down.

Kanbur attended a review meeting with Wolfensohn and the Bank's managing directors in May 2000, where he was surprised to hear the president expressing sympathy with the 'growth first' view. Kanbur had already conceded some ground to his critics, shifting the 'opportunity' section of the draft into first place and, in his 'overview' of the subsequent, green-cover draft, making substantive changes—which he later tried to pull back from—in the Treasury direction. A few days later he met with two of the Bank's managing directors. One of them, closest of all to Wolfensohn, summarized the thrust of Treasury criticism, and urged Kanbur to redraft some more.

Kanbur concluded that the *WDR* was on a slippery slope. They were coming under insistent pressure from the Treasury and from powerful Bank economists. Stiglitz's successor, Nicholas Stern, had only just been appointed; new and untested, he might not be in a strong position to protect them. They apparently had less support from Wolfensohn than they had counted on. The choice was to revise the *WDR* even further in the direction of the Washington Consensus, or to fight to protect their central argument and have the Bank dissociate itself from the *Report* and sweep it under the carpet. If Kanbur resigned, on the other hand, there might be a chance that the publicity would force the Bank to acknowledge *Attacking Poverty* as the work of an independent team of social scientists: 'we don't know why he resigned, we gave him complete independence and, to show our commitment to the process and our independence from the Treasury, we will keep the main themes the same, though we will of course improve the quality.'

Kanbur left the Bank immediately after the meeting with the two managing directors, returned the next day to collect a few belongings, and disappeared. After sending a brief email note to the team informing them of his intention, he resigned on May 25th. People—Wolfensohn included—tried to persuade him to withdraw his resignation, to no avail. His deputy took over as *Report* director. The story broke a fortnight later. Kanbur refused all press interviews. He did not want to dissociate himself from the Bank or the *WDR,* fearing this might legitimize even broader revisions to the draft.

In the end, the *Report* was published with three substantive changes. First, a chapter was added on growth and poverty, even though, in the eyes of some, its Washington Consensus message was inconsistent with

the rest of the argument. Second, the chapter on free-market reforms and unemployment, 'Making markets work for the poor', no longer emphasized the need for the prior establishment of social safety nets but called for them to be put in place 'simultaneously' with labour-shedding reforms—which might provide more excuse to delay them altogether. The original emphasis on other hazards of free-market reforms was also softened, and that on their benefits strengthened. Finally, the long section on the need for capital controls was cut to a fraction of the earlier draft's, and mention of Malaysia's experience was dropped altogether. The need for a 'cautious approach' to liberalizing financial markets was substantially watered down, with capital controls now appearing only as transitional measures en route to free capital markets. This last change was particularly dear to Treasury's heart.

An alternative development Bank?

There is some substance to Treasury's criticisms. There is a dangerous tendency in development thinking—seen in the thrust of the red-cover draft *Report* and in the Comprehensive Development Framework—to shift attention from growth towards non-income aspects of poverty and from hard-nosed technical subjects such as industrial technology policy and irrigation investment towards 'soft-nosed' issues—education, health, participation, legal reform and cultural projects. Developing countries have been experiencing a severe growth slowdown. Ever since 1960, average incomes in developing countries have grown more slowly than OECD incomes in most years, causing world income inequality to widen. The past two decades have seen the situation worsen: the median rate of growth in developing countries' average incomes between 1980 and 1998 was 0 per cent.[14] The growth crisis is itself an important proximate

[14] Median unweighted GDP per capita growth in 1960–79 was 3.4 percent for developed countries, 2.5 percent for developing countries; in 1980–98, 1.8 percent and 0 percent, respectively. The population-weighted average growth rate for developing countries in 1980–98 was 0.8 percent. The smaller fall of the weighted average reflects the faster growth of China and India. William Easterly, 'The Lost Decades: Explaining Developing Countries' Stagnation 1980–98', typescript, World Bank, January 2000. Branko Milanovic, 'True World Income Distribution, 1988 and 1993', Policy Research Paper 2244, Development Research Group, World Bank, November 1999. While I agree that fast economic growth can do wonders for poverty reduction, especially when asset distribution is relatively equal, I question whether the liberal free-market recipe is generally good for growth.

cause of the rising numbers in poverty and should be right at the forefront of the development debate—as should be the steps that OECD countries take to moderate it, including lifting US union-sponsored protectionism. But the swelling phalanx of American-led—and mostly Western-based—NGOs which have succeeded in advancing the 'governance, participation and environment' agenda are not likely to place it there; these bodies have shown little serious interest in economics and economic growth.

These qualifications notwithstanding, the Bank would be a better development agency if the US—both the Federal government and American-based NGOs—had less control over it, and if people from other states, with knowledge of other forms of capitalism, had more influence over what the Bank says and does, in terms of sanctioning a wider range of institutional configurations. We know from Japan and from the countries of continental Europe that efficiency, catch-up, innovation and well-being can be promoted not only by competition but also by organizational loyalties. Free markets in labour can be constrained by the need to protect such loyalties; corporations can be managed in the interests of employees and other stakeholders, as well as shareholders; they need not be bought and sold on the stock-market; and the public sector can express the principle of mutual responsibility through the supervision of health care, education and collective social insurance.[15] Certainly, such alternatives are on the defensive at the start of the present century. They are under question from segments of their own national elites (part of the US's return on generous scholarship funding for foreign students in American graduate schools), and under pressure from capital flows out of Europe. The US Treasury has declared that capital will continue to drain and the euro to fall 'unless and until Europe shows more commitment to overhauling its restrictive labour market and generous welfare systems, which are seen as a barrier to growth'—in effect, setting free-market conditionalities on US cooperation in intervention on behalf of the euro.[16] But political economies with social-democratic characteristics clearly can be effective vehicles of late

---

[15] I am indebted to Ronald Dore's pithy *Stockmarket Capitalism, Welfare Capitalism*, Oxford 2000. It should be read in conjunction with Robert Lane, 'The Road Not Taken: Friendship, Consumerism, and Happiness', *Critical Review*, vol. 8, no. 4, pp. 521–54.

[16] *International Herald Tribune*, 20 September 2000.

development. And the world economy would be less fragile if it contained a broader and more stable range of capitalist forms.[17]

One acid test of the World Bank's independence from US Treasury views would be the appointment of a chief economist and associated staff who openly championed these arguments. In the end, perhaps, the only long-term way to moderate American hegemony over it is to shift the Bank's headquarters out of the US. Constitutionally, the European states have the votes to do this. A World Bank with important staff and headquarter functions in, say, Berlin or Paris would be suffused by more diverse views of political economy. Short of that, the Europeans and the Japanese could organize themselves to steer the Bank a bit more. The Nordics have already been doing so for years now, putting up millions of dollars in trust funds for Bank work on the 'social' aspects of development—an area where the Treasury is happy to let them take the lead and pay the cost, being peripheral to the interests of the US state but central to the objectives of many American NGOs whom the Treasury likes to keep happy. The question is whether the Europeans and Japanese can exercise more leadership on the issues where the Treasury really does want the Bank as its instrument—such as opening up developing markets; and whether the representatives of developing countries on the board of the Bank will concert their actions for a change.

[17] See the research of Geoffrey Garrett, summarized in 'Shrinking States? Globalization and National Autonomy', in Ngaire Woods, ed., *The Political Economy of Globalization,* London 2000.