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The Political Economy of Development, 1945 to date

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Gender Equality: Striving for Justice in an Unequal World

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Introduction

This paper examines the two pre-dominant economic policy frameworks that have guided development policy since the end of World War II and assesses their success in promoting growth and poverty reduction in the developing countries. The Keynesian, mixed economy, interventionist approach was the guiding principle from 1945 to 1980 and the neo-liberal framework advocating greater reliance on the private sector and unfettered markets has been the dominant theme since 1980.

The paper traces the political economy of development in the evolution of the lending policies of the World Bank and the IMF. In addition to their own lending, these two institutions have played a leadership role in determining the policies of all the other providers of capital to the developing countries including UN agencies, the regional development banks, bilateral donors and private creditors and investors.

There was widespread agreement during the earlier period of managed trade, capital controls, and fixed exchange rates (until 1971) that governments had an important role to play in the economy. Governments could undertake investments that the private sector was unwilling or unable to make, provide the infrastructure needed to support private sector development and implement policies to promote social welfare, increase employment and reduce income disparities.

Between 1950 and 1975, world GDP growth rates averaged 5% per annum and significant progress was made in the developing countries in improving living standards. However, there was growing recognition in the 1960s and 1970s that the task of bringing about economic development was a lot more complex and costly than the reconstruction of the postwar industrial countries; that the benefits of growth were by-passing the poor; and that weak export prospects, a heavy debt burden and the limited availability of low cost loans were major obstacles to growth in the developing countries.

The paper examines the factors leading up to the oil price increases in the 1970s; the policy responses in the advanced countries that brought the postwar economic boom to an end, and the recycling of the oil surplus through the commercial banks. The recession and inflation in the industrial countries that followed the increase in oil prices led to the successful political and economic shift from Keynesian policies to the neo-liberal policies of Mrs. Thatcher in the UK and President Reagan in the US.

The debt crisis of the developing countries in the early 1980s was a consequence of their heavy reliance on short term loans from commercial banks to finance payments imbalances. The crisis provided the occasion for the imposition of neo-liberal policies on developing countries by the World Bank and the IMF in exchange for financial support and debt rescheduling. During the 1990s, the objective of reducing the role of the government in the economy was transformed into an ideology that market driven policies combined with open trade and investment regimes were the best way to promote growth and poverty reduction. However, after two and a half decades, the only success of the neo-liberal strategy has been in controlling inflation. The record in terms of output

growth, employment and poverty reduction has been poor in both developed and developing countries, and market driven policies have resulted in widening income disparities at the global and the national level.

The failure of development is evident in a wide variety of indicators---three billion people or half of the world's population living on less than \$2 a day, the shrinking of the middle class, a rising share of the population living in poverty in many countries in Latin America and Africa, widespread social dislocation and increasing violence in the developing world. The failure of development cuts across all regions except for several countries in East and South Asia that were able to ignore the policy advice of the World Bank and the IMF because they were not major borrowers from these institutions.

The poor and women bore the brunt of the burden of reduced public spending in the 1980s and they have continued to fall behind as poverty in the developing world has increased. The growing political awareness of the need to address the concerns of women has been derailed by economic realities --- low levels of investment, limited job opportunities and widening income disparities that provide women with few options and contribute to a worsening situation. A reversal of these economic trends will require a fundamental re-ordering of domestic priorities in developing countries in favor of the provision of food security and employment creation, and major reforms of the current global economic, financial and trade arrangements do not address the needs of the developing countries.

1. The Role of the World Bank and the IMF

The Bretton Woods agreement that established the World Bank and the IMF in 1944 was based on two principles. The first was the need for international cooperation in the management of the world economy. The second was the Keynesian view that governments had an important role to play in the economy.

At the Bretton Woods Conference, John Maynard Keynes chaired the commission that was responsible for creating the World Bank. His theory was that in a situation of low growth and high unemployment, government action can create higher levels of consumption and investment and thus stimulate aggregate demand and employment. Expansionary budgetary policies combined with income redistribution and growth oriented policies were required to implement this program.¹

The IMF and the World Bank had the same overall objective to promote growth, full employment and price stability and to facilitate the free movement of trade in the world economy but the two institutions were assigned different tasks. The World Bank was to lend for reconstruction and development and the IMF was to manage exchange rate stability through the active surveillance of the policies of surplus and deficit countries to

¹ Keynes (1936)

prevent the destructive competitive devaluations of the 1930s.² Agreement was also reached to establish an International Trade Organization (ITO) to manage trade issues but this agreement failed to get the approval of the US Congress. The General Agreement on Tariffs and Trade (GATT) which was established in 1946 was restricted to the industrial countries.

The idea of development was not an overriding concern in 1944 because so much of the developing world was still in colonial status or occupied. India and Pakistan became independent in 1949. Civil war raged in China and on the Korean peninsula. The US occupation of the Philippines ended in 1946. Indonesia, Malaysia, Singapore, Burma, and Vietnam were still colonies. Independence for the countries of Africa dragged on till the end of the 1960s, even to 1980 in the case of Zimbabwe. The Soviet Union was represented at the Bretton Woods conference and had been expected to be an important member of the postwar economy. The Soviet Union was given the third largest votes in the IMF after the United States and the United Kingdom but did not become a member of the Bretton Woods Institutions because of the outbreak of the Cold War. Cuba was also at Bretton Woods but the government withdrew in 1960. The People's Republic of China was established in 1949 but did not become a member until 1980.

The Bank's early years focused on the Reconstruction of Europe and Japan but the Bank's capital was insufficient to the task. The Bank had an original authorized capital of \$10 billion, and it was designed to issue bonds and make project loans at commercial rates of interest. The postwar economic recovery programs required large inflows of quickly disbursing grants to purchase needed imports of food, consumer and producer goods. President Truman had provided \$400 million in quick disbursing aid to Greece and Turkey in response to civil unrest and General George Marshall successfully persuaded Congress to make even larger sums of money available to Europe and Japan.

Marshall Aid over the period of 1947-51 was equal to 2.5% of GNP of the United States. There were important geo-political considerations behind the decision to provide Marshall Aid. A quick economic recovery of the war devastated economies of Europe and Japan was seen as essential to curbing the spread of Communism but it was nevertheless, an unprecedented act of generosity.

Marshall Aid was made available without conditions and at no cost to the recipients. These were inter-governmental transfers and the recipients made the grants available as low cost loans to various agencies. Repayments of Marshall Aid were kept in a special fund in the borrowing countries to finance social projects. The success of the Marshall Plan both in its conception and execution gave encouragement to leaders of the newly independent countries and development experts who hoped that similar measures could be adopted to help the developing countries.

The World Bank was slow to focus its efforts on the developing countries. The principal concern in the early years was to establish the Bank as a viable financial institution. This

² Keynes also wanted to end the practice of adjustment falling entirely on the deficit country because this was deflationary.

was a legitimate concern because the Bank's ability to lend depended on its ability to issue long term bonds. Careful attention was given to the selection of high priority infrastructure projects and the major borrowers from the Bank in the early years were the industrial countries. The first loan to a developing country was to Chile in 1948 for a hydro-electric project.

In the 1950s the Bank recognized the link between global security and development. The President of the Bank, Eugene Black said "We cannot build a stable world out of nations whose populations are engaged in a tooth and nail struggle merely to keep themselves alive."³ Black also recognized the importance of a "fairer" distribution of income "to provide ordinary people with both the means and the motive to increase their productive output."

The stated goal of the Bank in the 1950s was to bring about development to reduce income disparities between the developed and developing countries. This was a formidable task because in 1947, the average per capita income was estimated at \$1400 for the US; at \$400-\$700 for Europe and at \$100-\$200 for the non self-governing territories with half of the world's population.

During the 1950s, the foundations were laid for the expansion of development lending. The World Bank established its credit on Wall Street, laid down the policies and procedures that would govern its lending operations and broadened the scope of the economic and sector work. The International Finance Corporation (IFC) was created in 1956 to finance private sector projects and considerable efforts were made to encourage the donors to increase bilateral grant aid.

By 1960, it was becoming clear that the task of Development was more difficult, more complex and more costly than Reconstruction but this issue was never addressed either politically or economically as in the case of the European Recovery Program. From 1960 to 1963, the membership in the Bank and the Fund rose from 68 to 101 and this placed heavy demands on the Bank for increased loans.

The expansion of the Bank's clientele also presented many new challenges. There was no agreed theory of development, and no guidelines on how best to help developing countries which were engaged in many different forms of political organization. Development economics was a new subject and much was written about stages of economic growth, the merits of balanced and unbalanced development, the modernization of traditional agriculture, industrialization and employment, producing import substitutes or promoting exports, financing education and health. Developing countries favored the mixed economy, interventionist approach with some countries like India and China favoring more intervention, Latin American countries favoring less intervention and East Asian countries finding a balance between government support and private sector development for export oriented growth.

³ Black (1950)

The Bank had been designed to help the industrial countries until they could regain their capacity to borrow on their own account in the world's capital markets. The developing countries were structurally very different from the industrial countries. They were at an early stage of development with little industrial capacity. They were largely agricultural and exporters of primary commodities. Their capital needs were large but their capacity to service debt on conventional terms was limited.

The Bank had one lending rate and developing countries were required to borrow on the same terms as the industrial countries despite the wide difference in levels of per capita income. Many developing countries argued that the commercial rates of the Bank were more than they could afford and India made a proposal in the United Nations for the creation of a Special United Nations Fund for Economic Development (SUNFED) to make long term concessional loans to developing countries. This proposal gained widespread support among the newly independent countries and in some European countries. The United States and the Bank realized that if the SUNFED proposal was adopted in the UN, the Bank would lose a large part of its clientele. This led to the creation in 1960 of the International Development Association (IDA) as the soft loan affiliate of the World Bank.

IDA is financed by capital contributions from the major donor countries as part of their foreign assistance programs. These grants enabled the Bank to make loans to the countries that could not afford to borrow at commercial rates of interest, and to finance projects in the social sectors that were high priority but which did not generate a revenue stream to repay the loans. The creation of IDA helped to transform the Bank from a largely financial institution to a development agency. IDA was good for the poorest countries but the limited availability of funds meant that the funds had to be rationed among the low income countries, and the necessity to seek almost yearly contributions to IDA from the major donors forced the Bank to pay more attention to their demands.

The first \$1.0 billion given to IDA in 1960 was intended to last 5 years but all the funds were committed in three years. Since the early 1960s considerable effort has been given by the Bank to raising additional funds for IDA. ODA flows remained constant at \$6.6 billion between 1961 and 1965, and the ODA/GNP ratio declined from 0.65% in 1961 to 0.5% in 1965 despite the fact that the GNP of the industrial countries had risen by over 32% over this period.

The donors were showing signs of aid fatigue after less than three years of providing ODA and IDA in the 1960s. Their refusal to increase the amount of aid or the share of multilateral aid, led the President of the Bank, George Woods to propose the establishment of the Pearson Commission to try and explain to the donors that raising the level of ODA was in their interest.⁴

In the 1960s, the Bank agreed with UNCTAD that the growing debt burden, the steady deterioration in the terms of trade and the lack of access to the markets of the industrial countries were major obstacles to growth in the developing countries. The problem of the

⁴ Pearson Commission Report (1969)

growing debt burden, as the President of the Bank noted in 1964 was not that developing countries were borrowing too much but that the terms of the debt were too hard. Unable to obtain adequate levels of soft loans, many countries were increasing their reliance on short term suppliers' credits. Bank reports at the end of the 1960s concluded that the capital requirements of the developing countries were large and that there were several good investment projects available but commercial loans were too expensive and there was too little concessional aid.

The World Bank became the premier Development Bank during the tenure of Robert McNamara (1968-81). The former Secretary of Defense under Presidents Kennedy and Johnson perhaps chastened by the experience of the Vietnam War applied his considerable intellectual abilities, management skills and determination to tackling the problems of the developing countries.

His response to the capital constraint in the developing countries was to make every effort to increase net resource transfers. He found the Bank to be well capitalized and lending well below its capacity. His major contribution was to expand the volume of lending significantly and to direct lending to tackling the problems of under-development in the social as well as the productive sectors. In thirteen years, he increased World Bank lending from under \$1 billion a year to over \$12 billion. He kept the traditional lending for infrastructure projects but expanded lending to new areas ---agriculture and integrated rural development; urban projects; basic human needs, education, health, water and sanitation.

Considerable efforts were made to urge the donors to increase their contributions to IDA and their bilateral assistance programs. The Bank also organized a number of Aid Consortia to try to increase and coordinate donor assistance in several large countries. McNamara reiterated the global security interest of raising living standards in the poorest countries. In 1978, the Commission on International Development Issues was established at McNamara's suggestion under the chairmanship of Willy Brandt, former chancellor of Germany. The task of the Commission was to undertake an analysis of global issues dividing the rich and poor countries ---trade, aid, debt, monetary reform, industrialization and food security – and to make recommendations for their resolution.⁵

⁵ The Brandt Commission Report (1980)

11. The Keynesian framework from 1950-1980

The Articles of Agreement required the Bank to make loans or guarantees to **governments** for specific projects. There was no intention on the part of the founding members or the Presidents of the World Bank to expand the role of governments in the economy.⁶ However, there was recognition based on the experience of the Great Depression in the 1930s and World War II, that government spending could increase aggregate demand and stimulate higher rates of output growth by investing in projects or sectors that the private sector was unwilling or unable to undertake. The World Bank made loans to governments, public sector agencies and state enterprises and supported private sector development through the lending of Development Finance Companies (DFCs) and the International Financial Corporation (IFC).

Since most of the investment in developing countries was carried out by the public sector, careful attention was given to the analysis of the public sector investment program. The Bank evaluated the country's overall macro economic policy for balance and growth, selected the high priority projects that it wanted to finance and made loans to cover the foreign exchange costs. The estimates of the capital requirements of developing countries were made using a simplified economic model that stressed investment rates, incremental capital-output ratios (ICORs), the import elasticity of demand, export growth and debt service payments. In the 1950s and 1960s, Bank lending was heavily concentrated in the infrastructure sectors. The Bank financed the building of roads, railways and ports, large scale irrigation, power, telecommunications, water and sewerage projects. Towards the end of the sixties, the Bank began lending for education and rural development but the big shift in the lending strategy came in the 1970s

The focus on Reducing Poverty

The mood of the Bank was decidedly upbeat in the 1970s. Riding the crest of the wave of the post war economic boom in the industrial countries, output growth was expanding rapidly in the developing countries and governments were making steady progress in raising living standards. The President committed the Bank to directly addressing the task of reducing poverty and was looking for ways to have Redistribution with Growth.⁷ This optimism was reflected in Bank operations. Bank and IDA lending was expanding at record levels (Table 1). More importantly, lending was expanding in the productive and social sectors. There was some criticism within the Bank about the pace of the lending growth and the move into non-traditional sectors but there was considerable excitement and commitment to confront the obstacles to growth and poverty reduction.

⁶ All the Presidents of the World Bank are appointed by the United States and all of them with the exception of former Congressman Barber Conable (1986-91) were bankers or corporate executives.

⁷ McNamara (1973)

Table 1. World Bank Lending 1968-1981, US\$ million

	1968	1970	1971	1975	1979	1980	1981
IBRD							
Commitments	847	1580	1921	4320	6989	7644	8809
Disbursements	772	754	915	1995	3602	4363	5063
IDA							
Commitments	107	606	584	1576	3022	3838	3482
Disbursements	319	143	235	1026	1222	1411	1878
Bank Group							
Commitments	954	2186	2505	5896	10011	11482	12291
Disbursements	1091	897	1150	4824	5744	6941	

Source: World Bank Annual Reports 1968-1981, World Bank, Washington

In the 1970s, the Bank's lending strategy placed increased emphasis on investments that directly affected the well being of the poorest 40%. The objective was to raise the productivity of the poor and to integrate them more closely in the formal economy. The growth of the agricultural sector was identified as the key to improving living standards of the bulk of the world's poor, and high priority was given to the sector. "For the second consecutive year, lending for agriculture and rural development was greater than for any other sector. Sixty five projects were approved involving commitments of \$1627.6 million. Of these 65 projects, 38 were rural development projects in which the majority of the benefits accrue to the rural poor."⁸ The Bank estimated that the rural development projects approved in 1975 and 1976 would benefit five million farm families or 32 million of the absolute poor. This was a small fraction of the 100 million farm families living in poverty but it was a strong start.

After making some inroads into tackling rural poverty, the Bank turned its attention to addressing urban poverty through the provision of water, sanitation and transport services and supporting small scale enterprises. Governments were committed to increasing employment and it was widely recognized that the success in reducing urban poverty depended on the ability of developing countries to increase industrial production and create jobs.

Bank lending also expanded to include projects in the social sectors --education, nutrition and family planning, and the techniques of project appraisal became more sophisticated. In addition to the economic and financial rates of return, every project was examined for its environmental implications, the impact on the distribution of income, poverty reduction and employment generation. A new advisory position was created and filled in

⁸ World Bank 1976

1977 on the role of women in development, and the involvement of women was explicitly considered in projects especially in education and rural development.

Despite the severe problems confronting the world economy in the 1970s resulting from the increase in oil prices, and the recession and inflation in the industrial countries, developing countries were recording high growth rates. In the period, 1973-75, the annual GDP growth rate of the non-oil developing countries was 5.4% compared to 6.0% in the previous five years. Developing countries in every region were implementing measures to adjust to the changes in the world economy. Policies were being implemented to cut both private and public consumption, increase agricultural production, reduce oil consumption and inflation, and increase savings.

Progress was not limited to output growth. Political independence came with a backlog of urgent needs to raise output growth, build a manufacturing sector, and modernize the physical infrastructure but also to provide jobs, reduce income disparities and meet the needs of the poorest. The developing countries, with their own financing, made major advances in primary and secondary school enrolment and adult literacy programs. The expansion of health clinics and increased agricultural production resulted in significant declines in infant mortality rates from 142 per 1000 in 1960 to 122 per 1000 in 1975 in the low income countries; and from 72 per 1000 to 46 per 1000 in the middle income countries over the same period.⁹ In a few decades, the developing countries were making gains in raising life expectancy that had taken the developed countries a century to achieve.

The GNP per capita of the developing countries grew at an average rate of 3.4% per annum between 1950 and 1975. This was faster than the developed countries had grown in any comparable period before 1950.¹⁰ But the growth rates were uneven. The fastest growers were in East Asia (China, Hong Kong, Korea, Singapore and Taiwan) and in some oil producing countries. The second fastest growers were also in East Asia (Thailand, Philippines), oil producing countries and in Latin America. Together these two groups accounted for 60% of the population of the developing countries. The poorest countries accounting for the remaining 40% saw per capita increases of only 1% per annum or \$1-2 a year.

The review of the development experience from 1950-75 led to the conclusion that economic growth had by-passed both the poorest countries and the poorest income groups. The Bank gave up on the goal of the 1950s and 1960s to reduce income disparities between the developed and developing countries. The disparity in the capital endowments (human and physical) between the two groups was too large and even if growth rates slowed down in the industrial countries, it would take the poorest countries several decades to approach average living standards in the developed countries. The goal of development was changed to accelerating output growth in the poorest countries and reducing poverty.

⁹ World Bank 1978

¹⁰ Morawetz (1977)

The problems that were constraining GDP growth in the developing countries in the 1970s were the same as in the 1960s – low levels of investment, poor export prospects and weak debt servicing capacity. But the Bank increasingly emphasized the problem of the slow growth of capital transfers. Aid flows as a percentage of donor's GNP declined to less than half of the 0.7% target by 1975 and the poorest developing countries were the most adversely affected by the slow growth of concessional aid. "Resource transfers on concessional terms have fallen considerably short of expectations, need, and the capacity to use them effectively."¹¹

Throughout the 1970s, the Bank continued to finance public sector projects. McNamara's view was that it did not matter who owned the enterprises as long as they were efficient. His previous work experience during the war and later his seven years as Secretary of Defense had been to introduce better management and efficiency to the largest public sector agency in the world, the US Department of Defense. The Bank provided loans to help private sector development through IFC and DFCs but it continued to make loans to governments for infrastructure investments and for education and health, and to public sector agencies for productive projects. Sector loans in agriculture were designed to raise productivity and to help change policies.

The Oil Crisis in the 1970s

The post war economic boom and the pace of development came to an abrupt halt with the increase in oil prices in the 1970s. The action taken by the oil producers had such a devastating impact on the world economy and on the developing countries that it is important to review the factors leading up to the price increases, and to assess the impact on the developing countries of the increase in oil prices and of the failure of the international community to devise mechanisms to effectively recycle the oil surplus.

From the beginning of the twentieth century to 1971, the nominal price of oil had remained at under \$2.00 a barrel. The price of a barrel of Saudi Arabian crude was \$1.93 in 1955 and \$2.18 in January 1971. The real price of oil had fallen steadily throughout the 1950s and 1960s because of world inflation but the producers were unable to get adjustments because of the power of the major oil companies and their governments.

Oil was produced by a cartel of seven major oil companies under agreements which allowed the companies to set prices and to decide how much to produce in each country. This allowed the cartel to play off the demands of one country against another by shifting production. The governments of the UK and the US supported the oil companies to the extent of removing governments considered unfriendly.¹²

The price of oil was fixed in US dollars and therefore the real value of a barrel of oil depended on inflation in the US and the exchange rate of the dollar. The Smithsonian

¹¹ World Bank 1979

¹² Sampson (1975)

agreement which ended the fixed exchange system and the subsequent devaluation of the dollar in the early 1970s were important contributors to the oil price increases.

The fixed exchange rate system was based on countries setting their exchange rates against the dollar which had a fixed price in relation to gold of \$35 an ounce. In the late 1960s, the United States was experiencing large current account deficits because of expansionary monetary and fiscal policies to finance President Johnson's Great Society programs and the escalation of the Vietnam War. These deficits raised concern in Europe and Japan about the ability of the US to exchange dollars held abroad for gold.

The US did not accept the suggestions of the IMF that there needed to be constraints on its spending in order to fulfill its obligations to the international community to maintain the par value system. Nor did the US agree with the recommendation of the IMF to devalue the dollar since this implied economic weakness but as its gold reserves began to fall rapidly, the US decided to abandon the fixed exchange rate system.

On August 15, 1971 the US announced that it would no longer redeem dollars held abroad for gold. This unilateral declaration was in clear breach of US obligations under the Articles of Agreement of the IMF. The Managing Director of the IMF was told of the US decision one hour before it was announced on television. The breakdown of the par value system was followed by the introduction of floating exchange rates, greater turbulence in currency markets, expansionary monetary policies and a quadrupling in oil prices in 1973-74.

In the early 1970s, the oil producers were alarmed at the rapid deterioration in their terms of trade. The growth of the world's money stock accelerated sharply to 12.5% per annum between 1971 and 1973 (compared to 6-9% per annum between 1961 and 1969). The prices of non-fuel commodities rose by 70% and food prices rose by 101%. The currency instability contributed to the deterioration, and the fact that the dollar was devalued twice between 1971 and 1973 added to the unease of the producers. The Kuwaiti Oil Minister is reported to have said "What is the point of producing more oil and selling it for an unguaranteed paper currency?"

The pressure of growing demand and competition from independent producers forced the major oil companies to agree to a formula for increasing prices in 1970. By January 1973 the price of oil had risen to \$2.59 a barrel and throughout the year, there were further increases. The petroleum market tightened after the outbreak of the Yom Kippur war in October and the sanctions applied by Arab producers on the countries supporting Israel. By the end of 1973, the price of oil had jumped to \$11.65 a barrel.

The quadrupling of oil prices in 1973 resulted in huge payments imbalances. The oil exporting countries had large surpluses and the industrial countries and oil importing developing countries had large deficits. Oil revenues increased from \$15.2 billion in 1972 to \$110 billion in 1974 and \$283 billion in 1980. The international monetary system had no effective mechanism to recycle the oil surplus, and the ensuing problems of recession

in industrial countries, declining output in the developing countries and the massive build up in external debt of the developing countries was a direct consequence of this failure.

OPEC savings could have led to higher world investment if their balance of payments surplus had been lent to the consuming countries on appropriate terms. OPEC savings could also have led to a reduction of savings elsewhere. This did not happen. The US printed money and the surplus was matched by an increase in financial assets. OPEC savings increased without a corresponding increase in real investment or reduction in savings elsewhere. In this way, the major oil consuming countries minimized the real transfer of resources.

The Managing Director of the IMF proposed the establishment of an Oil Facility to recycle OPEC funds to the consuming countries with no conditionality. The position of the US was that the increase in oil prices was a hostile act that threatened the security of the United States and that no action should be taken by the IMF that would appear to validate these increases. It was the intention of the US to force the oil exporters to roll back the price increases.¹³

The US was prepared to have an Oil Facility for the OECD countries but wanted to ignore the financing of the deficit of the developing countries in order to embarrass the oil producers into reducing prices. The Oil Facility was established in June 1974. The IMF borrowed \$3.6 billion from the oil producers and lent the funds with no conditionality. In September 1974, the IMF proposed a second oil facility of \$4.65 billion. The UK and Italy borrowed from the Oil Facility and could afford to pay the commercial interest rates of about 8% but these rates were too high for the low income developing countries. The IMF established an interest subsidy account out of the sale of some of its gold holdings to make cheaper loans to the developing countries but the amount of low conditional financing available from the IMF was very limited.

The rise in inflation and interest rates in the US from 1974-78 reduced the size of the OPEC surplus which fell from \$58.4 billion in 1974 to \$13.4 billion in 1978 and the real price of oil. At the end of 1978, the revolution in Iran and the overthrow of the Shah set off a new wave of political and economic instability. The Iran-Iraq war started in 1979. The Soviet Union invaded Afghanistan and the price of oil doubled in 1979/80.

The substantial increase in the price of oil in 1973/74 and again in 1979/80 changed the global economic picture in a very dramatic and painful way for oil importing developing countries. The loss of output and the rise in prices was comparable to a devastating war. The poorest countries were especially hard hit since they were unable to borrow enough to maintain import levels. The middle income countries borrowed heavily from the commercial banks to finance their ever increasing payments imbalances (Table 2).

¹³ Recently declassified documents in the United Kingdom revealed that the US was also considering the occupation of Kuwait and Saudi Arabia if the embargo did not end soon.

**Table 2. Current Account Balances of Oil-Importing Developing Countries
(US \$billion in current prices)**

	Low income	Middle income	Total
1970	-1.7	-7.0	-8.7
1971	-2.5	-8.2	-10.7
1972	1.5	-3.8	-5.3
1973	-3.1	-4.2	-7.3
1974	-6.0	-27.1	-33.1
1975	-5.4	-33.2	-38.6
1976	2.4	-24.4	-26.8
1977	1.6	-21.3	-22.9
1978	-5.1	-20.4	-25.1
1979	-7.2	-37.2	-44.4
1980	-10.9	-58.7	-69.6

Source: The World Bank Annual Report 1981, World Bank, Washington

The imbalances were smaller for the low income countries because they were unable to borrow on the Euro-currency market that was the principal source of funds for the middle income developing countries. The loans were short term and they carried interest rates that were adjusted every six months. Inflation averaged 10% per annum in the 1970s compared to 3% in the 1960s and this greatly increased the burden of servicing the debt. The total debt of the developing countries increased more than eightfold from \$70 billion in 1970 to \$580 billion in 1980. Debt service increased from \$8.2 billion in 1970 to \$72 billion in 1980 (Annex Table 1).

Despite the fact that the decade of the 1970s witnessed the end of the postwar economic boom and considerable difficulties for developing countries, the 1970s will be remembered as the period in which the World Bank and the international community expressed a firm commitment and actively engaged in operations to reduce global poverty. World Bank and IDA lending increased five fold from \$2.5 billion in 1971 to \$11.5 billion in 1980. Nearly half of the lending was for agriculture and rural development, education, population and nutrition, urbanization and small scale industries. Infrastructure lending fell to one third of the total and included the building of rural roads and lending for oil and gas exploration.

During the 1970s, GNP growth in the developing countries averaged 5.3% per annum compared to 5.6% per annum in the 1960s. But the growth rates were uneven among the different regions. Growth was higher in the oil exporting developing countries and the newly industrializing countries in Asia and Latin America but growth rates declined in South Asia and in Sub-Saharan Africa. Overall the developing countries weathered the oil shocks through a rapid build up in commercial borrowing, increases in remittances and cuts in spending. The economic costs in terms of the decline in GDP, increase in poverty and rising external debt were considerable. The greatest difficulties were

experienced by the poorest countries that had little room for spending cuts and limited borrowing ability.

The World Bank's 1980 Annual Report reflected on these mixed results. "Although there have been both quantitative and qualitative changes in Bank policy and programs over the past decade, these changes have not gone far enough to affect significantly the well-being of the absolute poor. The fulfillment of commitments by governments to increase the lending ability of both the Bank and IDA has lagged behind the needs of the developing countries. IDA funds in particular were in short supply during the fourth and fifth replenishment periods." The decade ended with the decision by the Bank to change the lending strategy to assist long term "structural adjustment" in the developing countries. Specifically, to help the developing countries to become less dependent on imported oil by developing domestic sources of energy and to increase exports in order to reduce their borrowing requirements.

III. The emergence of neo-liberalism in the 1980s

Shift to the Political Right

During the period 1950-1980 there was general agreement among the major political parties in the United States and the United Kingdom about the goals of full employment, price stability and social welfare. They differed on the degree of government intervention needed to achieve these goals, and they generally drew their support from different groups in society. Businesses and the farming community supported Conservatives and Republicans, and blue collared workers in manufacturing jobs supported the Labour and Democratic parties. The election of conservatives with a pro-business agenda was a regular occurrence in the advanced democracies up to the end of the 1970s. The change of governments between the two parties had the feel of allowing the other side a chance at bat.

The election of Mrs. Thatcher in the UK in 1979 and President Reagan in 1980 ushered in a new era that brought the conservative and pro-business agenda to the forefront of domestic and international economic policy. The business community had been moved off center stage by the experience of the stock market crash in 1929, the Great Depression in 1930 and World War II. In the 1950s, the large corporations began to push for a greater role in economic management and prompted the warning from President Eisenhower about the growing influence of the military-industrial complex on economic and political affairs. Since 1980 the influence of the military-corporate-financial and political complex in the US has steadily grown.¹⁴

¹⁴ Phillips (2002)

The recessions and inflation in the 1970s that followed the oil price increases gave the Conservatives and their supporters in the business community the opportunity to offer a different agenda to manage the domestic and global economy. The neo-liberal philosophy began with the aim of giving the private sector a greater role in the economy by reducing the role of the government in economic affairs through tax cuts, deregulation and the privatization of public sector enterprises. This objective was expanded to include the promotion of policies that directly helped the business community by keeping wages low, providing subsidies, tariffs and tax incentives and making trade agreements that favored the business community. There was less concern with the social contract or the Great Society programs of the 1960s to improve the living conditions of the poorest groups.

The link between the neo-liberal philosophy and economics is tenuous. Classical theory had shown that the market was the most efficient mechanism for the provision of goods and services for any given distribution of income. But the market was not a perfect mechanism. Markets were prone to irrational exuberance resulting in booms and crashes. Markets were not the best providers of public goods like security, defense, libraries, public health, etc. Markets could produce undesirable externalities like pollution, toxic dumping, monopolistic pricing and hoarding. Markets could lead to a widening of the distribution of income. Keynes' remarkable insight was that the market was not self correcting as prices and output fell. His General Theory provided the argument for governments to play a role in raising aggregate demand and correcting some of the imperfections of markets.

Robert McNamara had been elected for a third term in 1978 but in June 1979, he announced that he would resign the following year. It seems likely that he understood that the political winds had shifted and that they did not favor his development policy orientation. The United States and the United Kingdom have more than one fifth of the voting power of the Bretton Woods institutions and they have always been able to use this voting strength to exercise undue influence on the operations of the two institutions that they founded. The US appoints the President of the World Bank and the Deputy Managing Director of the IMF and the US has withheld approval of candidates for Managing Director of the IMF until European governments proposed a candidate that seemed to share its views.

Throughout the 1970s the tensions between the US government and the World Bank and the IMF had grown. The US resented the independent positions taken by the two institutions. The expansion of World Bank lending under McNamara to government and public sector agencies ran counter to the views of the Republicans in the Nixon and Ford administrations and in Congress. They believed that the World Bank was crowding out the private sector and that most of the poverty focus of the Bank was supporting public welfare. During the 1970s, the US expressed its disapproval by refusing the Bank permission to borrow in the US, by reducing and delaying its contributions to IDA and by refusing the request of the Bank for a General Capital increase.

The IMF had provoked considerable anger in the Nixon administration by suggesting the need for reducing the fiscal and current account deficits and devaluation in the early

1970s. The US rejected proposals to increase Fund resources through a quota increase, an SDR allocation or the sale of gold. The debt crisis in the early 1980s provided the opportunity for the major shareholders to impose their neo-liberal prescription for promoting growth in the developing countries through the operations of the Bank and the Fund and to reduce their autonomy.

The Debt Crisis

The origin of the debt crisis of the developing countries was the rapid build up in commercial bank loans to finance the payments imbalances caused by the increases in oil prices in 1973/74 and 1979/80. The external debt had increased from under \$100 billion in 1970 to \$570 billion in 1980. The medium and long term debt increased fourfold and there was an even larger increase in short term debt.

The growth of the debt and the debt burden in the 1970s was very rapid.¹⁵ Growth rates in the poorest countries declined in the 1970s and their arrears increased but the middle income borrowers that were able to borrow from commercial banks were maintaining investment and GDP growth rates, implementing adjustment policies and increasing their export earnings. By the end of 1978, it seemed that the world economy had adjusted painfully but smoothly to the effects of the first oil shock. OPEC's balance of payments surplus had fallen to its 1973 level; the current account deficit of the non-oil developing countries was contained at the 1974 level and the industrial countries were once again in surplus.

With the second oil shock in 1979/80, the price of oil increased 200% over its 1978 level. This resulted in another large and abrupt increase in global payments imbalances. The current account deficit of the industrial countries rose from \$10 billion in 1979 to \$40 billion in 1980, and the deficit of the non-oil developing countries increased from \$44 billion to \$70 billion (Table 2). The industrial countries responded to the 1979/80 oil price increase by raising interest rates and reducing demand. The impact of the second round of recession and inflation in the industrial countries was further increases in the cost of servicing the debt and reductions in export earnings. The current account deficit of the developing countries rose to \$110 billion in 1981 and most of the increase was due to the rise in interest rates and the decline in non-oil commodity prices.

The recycling of the OPEC surplus through commercial banks was inappropriate for a number of reasons:

1. The developing countries were financing long term structural imbalances with short term money;
2. Commercial bank loans were only available to about 12-20 middle income countries. Mexico and Brazil together accounted for 40% of the loans;
3. The banks were inadequately capitalized to make large loans on continual basis;

¹⁵ The most commonly used indicators of the debt burden are the Debt/Exports ratio, the Debt/GDP ratio and the Debt service/Exports ratio.

4. The banks did not have the capacity to assess the needs and prospects of the developing countries or their ability to service medium term debt.

The lack of any multilateral mechanism to recycle the surplus and the insecurity caused by the seizure of Iranian assets held in US banks influenced the decision of the oil producers to hold the surplus in the form of short term (90 day) deposits in commercial banks. The banks then relent the funds for 3-5 years at interest rates that were revised every six months. Developing countries usually paid a premium of 1-2% over LIBOR (London Inter-bank offer rate) and these rates had risen from 6.5% in 1977 to 14.3% in 1980 to 16.6% in 1981. This led to an increase in interest charges from \$30 billion in 1980 to an average of \$50 billion per annum for the rest of decade.

A debt crisis was inevitable because the debt was heavily concentrated among the creditors and debtors; the maturity structure was short and the bulk of the debt carried variable interest rates in a period of high and volatile rates. In 1980, two-thirds of the total debt of the developing countries was owed by less than 40 middle income countries. These countries also accounted for 75% of the debt owed to commercial banks. On the creditor side, US banks accounted for 60% of total commercial bank lending to the developing countries.

There were increasing signs before the second oil shock that the commercial banks were reaching, if not exceeding prudent lending limits and were not adequately capitalized to recycle the oil surplus. In 1979, the combined capital of the 20 largest US banks was less than their claims on Brazil and Mexico, and these two countries accounted for 40% of US bank lending.¹⁶ The increase in payments imbalances in 1980/81 coincided with the decision by the banks to reduce their exposure in developing countries, and it was the decline in lending that precipitated the crisis.

By 1979 the developing countries were borrowing just to keep current on their debt service payments. There was little or no increase in net flows but any slowdown in the growth of the gross flows would imperil their capacity to service the debt. Brazil needed to borrow \$14 billion in 1979 to rollover its existing debt and pay interest. This was the same amount that the World Bank was borrowing on international capital markets but while the Bank was issuing long term bonds and had the guarantee of all its members, Brazil was running up against the lending limits of the commercial banks.

Mexico's gross borrowing requirement was higher than that of Brazil and the slowdown in commercial bank lending led to the build up of arrears. After Mexico declared a standstill on debt service payments in 1982, commercial bank lending to the developing countries came to halt and several more middle income debtors began to accumulate arrears.

The response to the debt crisis was ad hoc and ineffective. The creditor governments viewed the debt crisis as a short term 'liquidity' problem to be resolved by the banks on a case by case basis. Special emergency loans were arranged for Mexico by the US

¹⁶ Hardy (1979)

Treasury and the US government took the lead in requiring the World Bank and the IMF to make quick disbursing loans to enable the market borrowers to repay the banks. Defaults were to be prevented since they could cause some of the major banks to declare bankruptcy and provoke an international banking crisis.

The first debt restructuring plan implemented by the World Bank and the IMF was the 1985 Plan named after James Baker, the Secretary of the Treasury. The Baker Plan required increased lending by the IFIs and the commercial banks but there was no mechanism to ensure compliance by the banks. The Baker Plan was followed a few years later by the Brady Plan named after his successor. Under the Brady Plan, the international institutions made loans to enable developing countries to buy back part of the commercial bank debt at a discount.¹⁷

Numerous debt reschedulings did nothing to reduce the burden of the debt. Between 1975 and 1985, there were more than 150 debt renegotiations. Zaire, Peru and Sudan rescheduled their debt more than 7 times in 10 years. The creditors would lump together arrears and one year of principal into a new loan and the restructured loan would be added to the debt outstanding and charged a moratorium fee. Governments were also required to merge the short term loans of the private sector into new medium term debt and to assume some of the obligations of the private sector.

Despite increased lending by the World Bank and the IMF to the middle income countries to enable them to service their commercial bank debt, the banks continued to reduce their lending. The negative net transfer of resources from developed to developing countries increased from \$20 billion per annum in the early 1980s to \$50 billion per annum by the end of the decade.

The debt burden of the low income countries was as high as that of the middle income countries but these countries did not threaten the viability of the international banking system and their problems received less attention. Their debt ratios were the same or worse than those of the middle income countries and they were less able to cope with the spending cuts. Longer term mechanisms to restructure the debt of the poorest countries were not envisaged even though the amounts owed by the low income countries were small. The total debt of Africa was less than the debt of Brazil and Mexico and was owed mainly to official creditors.

The low income countries were required to give priority to servicing their debts to the multilateral institutions and they had to reach agreement with the Bank and the Fund on structural adjustment programs before they could seek debt rescheduling from bilateral creditors or receive development assistance. Out of 47 countries in Sub Sahara Africa, 30 were implementing structural adjustment programs in the 1980s.

The same policy conditions of spending cuts, devaluation, privatization and trade liberalization were applied to the poorest countries in exchange for official lending.

¹⁷ Commercial bank loans to some developing countries were being sold to other banks for 50% or less of their face value.

These countries could not obtain sufficient loans or grants to finance higher import levels and pay debt service and their import levels had to be reduced. In the words of IMF officials, deficits that could not be financed had to be eliminated. There was widespread recognition that the spending cuts were devastating the poorest countries and the poorest groups. The policy conditions were so regressive that in the second half of the 1980s, there were calls from UNICEF for Adjustment with a Human Face.

As their payments problems worsened, several low income countries were obliged to use bilateral and multilateral ODA to repay the Bank and the IMF in order to receive disbursements on earlier loans or to be eligible for new loans. Take the case of Guyana. In 1988, Guyana had a total debt of \$700 million and arrears of \$1000 million including arrears to the Bank and the Fund. After agreeing to a structural adjustment program, Guyana received concessional loans from the Bank and the Fund so that the arrears to the two institutions could be cleared, and the arrears to bilateral creditors were restructured at the Paris Club. The total debt of Guyana was now \$1.7 billion but Guyana was no more capable of servicing debt of \$1.7 billion than it was able to service debt of \$700 million.

By the end of the 1980s, the threat of a collapse of the international banking system was no more. The banks had reduced their exposure and built up their capital adequacy ratios. For the developing countries, the debt had more than doubled to \$1422 billion. The ratio of debt to exports had risen to 171%, debt service ratios had increased to 19% and the debt to GDP ratio had risen to 35%.¹⁸ Exports had gone up but most of the increased earnings went to pay interest. Imports were severely compressed resulting in low rates of investment and GDP growth and a loss of productive capacity. Governments were in chronic fiscal crisis because they had assumed some of the burden of the commercial bank debt and could not mobilize the resources to pay debt service. Cuts in public spending removed any semblance of social safety nets and the ratio of the population living in poverty increased.

Policy based lending and the Washington Consensus

The Articles of Agreement require the Bank to make loans to governments to finance **projects** and exceptional circumstances are needed to depart from this ruling. In the 1960s, the Bank cited exceptional circumstances to make balance of payments loans to India. The loans were used to finance imports of industrial raw materials to meet the need of factories operating well below capacity. In the mid-1970s, the Bank responded to the need of developing countries for increased balance of payments financing by making quick disbursing sector loans.

After the second oil price increase, the management of the Bank concluded that the increase in oil prices was not reversible and decided to shift the lending strategy to help developing countries to reduce their demand for imported oil and to increase exports. The view in the Bank was that this lending would provide balance of payments assistance to

¹⁸ Africa's debt had tripled to \$180 billion, the debt to export ratio was 171% and the debt/GDP ratio was 63% despite declining per capita incomes and negative net flows.

support long term structural adjustments and complement short term lending by the IMF. The US did not support the proposal for increased lending for oil and gas exploration and Structural Adjustment Lending acquired an entirely different focus in the 1980s. In order to obtain official support, borrowers were required to accept the policy prescriptions of the Bank, the Fund and the US Treasury. This policy package became known as the Washington Consensus.

Adjustment in the first instance meant belt tightening. Borrowers were required to reduce current account deficits by cutting consumption, investment and government spending; firing employees, reducing wages, abolishing food subsidies and price controls on basic goods and a host of other demand management measures. Devaluation was required to promote exports but it also raised the price of imported food and oil. These programs resulted in a severe contraction of imports and the brunt of the burden of adjustment fell on the poor. A second component of adjustment was to reduce the role of the government in the economy through the privatization of public sector enterprises, the abolition of marketing boards and cooperatives and the third component included measures to liberalize trade and capital flows to support private sector development and give confidence to foreign investors.

The structural adjustment programs were drawn up in Washington and left little room for negotiation. The most difficult decisions had to be made as a prior condition for disbursements. The governments of developing countries complained bitterly that the IFIs were using a balance of payments problem which occurred for reasons beyond their control to impose the ideology of economic and social development of the major shareholders, that there were no safety net provisions for the hardships caused to the poor, and that there was no guarantee that the measures would lead to increased net capital flows or higher GDP growth.

President Nyrere asked who elected the IMF the International Ministry of Finance and other developing country officials asked why democratically elected governments were being forced to adopt measures that were different from their policy platform. The poorest countries had no choice but to accept the programs. All forms of capital inflows dried up without the seal of approval of the Bank and the Fund. Developing countries could not get debt rescheduled or receive bilateral aid unless they reached agreement with the IFIs. East and South Asian developing countries were able to grow in the 1980s largely because they were able to maintain high investment levels without seeking help from the Bank and the Fund.

Developing countries in Africa and Latin America undertook these policy reforms causing great hardships to the poorest groups. They sold publicly owned companies to multinational corporations and the richest 5% in their own countries but they did not receive additional capital flows and they did not increase their per capita incomes or productive capacity.

The policy reforms required were comprehensive and intrusive. They covered reforms in the public sector, public sector enterprises, the financial and industrial sectors, trade policies and energy policy. Private sector development was expanded to include the

provision of infrastructure and services. Careful attention was given to removing regulations and undertaking legal reforms to improve the environment for private sector development. Developing countries were required “to remove barriers to entry and exit, revise labor laws to reduce distortions and the excessive cost of job creation, simplify and improve the tax system to make it more transparent and less distortionary, change titling laws and procedures to make it easier to establish property rights, improve anti-trust legislation, streamline procedures for registering and licensing businesses, reduce the role of public monopolies, improve business accounting and auditing practices, and more.”¹⁹

The Bank’s review of its policy based lending showed that the gains were negligible in improving the economic performance of developing countries, reducing the debt burden or alleviating poverty.²⁰ The review found that

- The bulk of the spending cuts fell heavily on investment in 20 of the 30 countries reviewed.
- Inflation fell in 50% of the countries
- Debt indicators improved for 50% of the countries
- Only 8 countries out of 30 improved in terms of GDP growth and debt service burden.
- Budget deficits increased in most countries.
- Progress was slow in nutrition, life expectancy, and primary school enrolment.

This evaluation of the impact of Structural Adjustment Lending and the deterioration of living standards in the developing countries noted in the Human Development Reports and other UN publications clearly indicate that the 1980s was about Debt Management not Development. The priority of the industrial countries was to prevent an international banking crisis and this required that the developing countries repay their commercial bank debt and implement stringent measures to reduce spending. The commercial banks that had made loans without regard to creditworthiness considerations were protected by their governments and the multilateral institutions and a banking crisis was avoided but at great cost to the population of Sub Saharan Africa and Latin America where per capita incomes declined throughout the decade as shown in Table 3.

¹⁹ World Bank (1989a).

²⁰ World Bank (1989b)

Table 3. Developing Countries: Per Capita GDP growth 1981-1990 (%)

	1981-86	1987	1988	1989	1990
Developing Countries	1.8	1.4	2.0	1.0	0.2
Sub-Saharan Africa	-1.3	-2.8	-0.6	-0.2	-2.1
East Asia	6.4	7.1	7.4	3.8	4.3
South Asia	2.8	2.0	5.7	2.6	2.1
EMENA*	1.6	-1.4	0.1	0.1	-1.3
Latin America	-0.6	1.0	-1.4	-0.6	-2.6

*Emena: Europe, Middle East and North Africa

Source: The World Bank Annual Report 1991, World Bank, Washington

Growth rates were high in East Asia and modest in South Asia because these regions were able to sustain high rates of domestic saving and investment. The Investment/GDP ratio for East Asia increased from 29.4% in 1980 to 40.0% in 1990. In South Asia, investment levels declined slightly from 23.1% in 1980 to 21.4% in 1990. In Latin America investment levels **declined** from 24.2% in 1980 to 18.0% in 1990. In Sub-Saharan Africa investment levels **fell** from 20.8% in 1980 to 15.8% in 1990. In Africa, both consumption and investment fell.

These averages conceal wide differences among developing countries. In many of the poorest countries in Africa, investment was not sufficient to cover the depreciation of assets with the result that many of them were losing their productive capacity. Investment levels declined because more capital was flowing out of the developing countries than flowing in. Negative net transfers increased from \$10 billion in 1984 to \$50 billion in 1988-90. By 1990, the total debt outstanding had risen to \$1.4 trillion and 35% of GDP. Developing countries were becoming more indebted as their capacity to service the debt was being reduced.

In 1990, the World Bank's diagnosis of what ailed the poorest countries was that Saving and Investment ratios were low, real investment was declining, productivity lagged behind competitive countries, export volumes were stagnating, bottlenecks remained in infrastructure and the human resource base lacked depth. High rates of population growth, environmental degradation and rising urban unemployment were additional constraints to growth. The Bank concluded that only stronger economic growth coupled with action to address the most critical constraints can reverse these trends, and to achieve this growth, higher levels of investment was needed. Fifteen years later, this conclusion still stands.

IV. Responding to Crises in the 1990s

The decade of the 1990s opened to a strained world economic and political environment resulting from the recession in the industrial countries, the first Gulf war and the turbulence of the market reforms in East and Central Europe. Although the risks of defaults creating a banking crisis had passed, the amounts owed to the banks remained large and the World Bank continued to make policy based loans and credits to developing countries to enable them to reduce their commercial bank debt. “As a result of four operations in 1990, the nominal value of the commercial bank debt has been reduced by \$11.5 billion.”²¹ In 1990, the Bank made its largest loan in nominal terms (\$1260 million) to Mexico in support of debt reduction. The effort to reduce the debt owed to private banks also shifted in the 1990s from the middle income to the low income countries and the HIPC (Highly Indebted Poorest Countries Initiative) was launched in 1996 to reduce the multilateral debt of low income countries.

In the 1990s, the view of the superiority of markets grew into a full blown ideology. While an AIDS epidemic and an unsustainable debt burden ravaged Africa, the World Bank held a seminar in Kenya in 1995 “to confirm the untapped potential in the African private sector.” All developing countries that needed to restructure debt (private or public), or to receive ODA or loans from the multilateral institutions had to agree on a package of sweeping policy changes. The conditionality was no longer referred to as the Washington Consensus but was replaced by a new catchword, globalization.

Globalization is neither a noun nor a verb. It has no dictionary definition. Globalization is a made up word that is supposed to imply good things. But for developing countries, globalization had a specific operational meaning. Globalization was Phase Two of the neo-liberal prescription for a successful growth strategy. Under Phase One, developing countries were to pursue macroeconomic stability through reduced spending, low inflation and limited government intervention in the economy. Under Phase Two, developing countries were to remove all barriers to trade and capital flows, and all sectors of their economies were to be open to private foreign investment. It was asserted that these policy changes would lead to higher capital inflows, productive efficiency and higher growth.²²

Structural adjustment lending programs contained conditions relating to the removal of restrictions on trade but the major activity in removing trade barriers took place through multilateral negotiations at the Uruguay Round (1994), regional agreements (NAFTA) and later at the WTO. The focus of the IFIs was on financial sector reforms.

The World Bank’s role was redefined in the 1995 Annual Report as to “ensure the robustness of financial and institutional frameworks to help developing countries to become more integrated with the global economy.” Policy based lending to support financial sector reforms—deregulating interest rates, abolishing credit ceilings and

²¹ World Bank (1991)

²² International Monetary Fund (1997)

subsidized credits and lowering entry barriers-- became a major component of structural adjustment lending.

The public sector was replaced by the private sector (mostly foreign) in the provision of infrastructure (roads, electricity, ports, airports). “A landmark project in Cote d’Ivoire approved in FY95 supports the first privately owned and operated independent power generating plant in Africa.” Foreign firms were encouraged to compete for the provision of water and sanitation services.

The rapid growth of private flows from 1990-1996 seemed to support the view that investments in the developing countries should be left to the private sector.

Table 4. Net capital flows to Developing Countries, 1990 to 1996 (US\$ billion)

Type of Flow	1990	1991	1992	1993	1994	1995	1996
Total Flows	100.6	122.5	146.0	212.0	207.0	237.2	284.6
Official Capital Flows	56.3	65.6	55.4	55.0	45.7	53.0	40.8
Private Capital Flows	44.4	56.9	90.6	157.1	161.3	184.2	243.8

Source: Global Development Finance 1997, World Bank, Washington

FDI flows increased more than sixfold mostly as a result of the privatization of public assets, and the Bank declared that FDI was expected to remain the dominant source of external finance for the foreseeable future. “Globalization and liberalization of developing economies have resulted in a remarkable upsurge in foreign direct investment flows in the 1990s.”²³ The problem was that 90% of the private flows went to about 12 middle income borrowers and these flows were short term and very volatile.

Growth in the low income countries was constrained by the decline in official flows, weak export growth and an unmanageable debt burden. FDI flows accounted for 60% of the private flows to the low income countries but the overall level of private flows amounted to less than 1% of GDP. The gap in financing was not met by an increase in official flows. Aid flows in 1998 were one third the level in 1990 in real terms. The ODA/GNP ratio fell from 0.35% in the mid-1980s to 0.22% in 1998. Net transfers to the low income countries remained negative despite their adoption of the policy reforms.

The industrial countries also had a number of other concerns in the 1990s that claimed an increasing share of scarce official flows. These priorities were to assist the economies in transition, post-conflict reconstruction, humanitarian assistance and responding to financial crises.

²³ World Bank 1999a

Membership in the IFIs increased from 135 in 1980 to 181 in 1998 following the breakup of the Soviet Union, policy shifts in Central and Eastern Europe and the breakup of Yugoslavia. The industrial countries attached high priority to helping these new members to make the transition from government managed to market based economies. Lending to East and Central Asia in the World Bank increased from \$1.6 billion per annum in 1986-90 to \$4 billion per annum in 1994-1995. Nearly 40% of the lending was to Russia.

The increases in lending to the countries in transition took place within the context of declining official flows. After stagnating at around \$16 billion from 1990-95, Bank lending declined to \$14.5 billion per annum in 1996 and 1997. IDA lending stayed at under \$6 billion per annum for the entire decade. This means that the increased lending to the countries in transition came at the expense of loans to the developing countries. In 1996-97 the Bank and IDA provided an extraordinary level of support to countries in Eastern Europe and Central Asia that suffered the effects of the Russia and Kosovo crisis.

Another priority in the 1990s was post conflict reconstruction. The first Gulf War resulted in increased Bank lending of \$1.5 billion to Egypt, Turkey and Jordan and some other countries affected by the loss of remittances from Iraq. The demand for post conflict and humanitarian assistance rose following the wars in Bosnia-Herzegovina, Rwanda and Burundi, Kosovo, East Timor and now Iraq.

However, the largest claim on Bank and Fund resources in the 1990s came in response to repeated financial crises that resulted from the volatility of private capital flows. The countries affected by financial crises included Russia, Turkey, Mexico, Korea, Thailand, Indonesia, Philippines, Brazil, Colombia, Ecuador and South Africa. In response to the currency crisis in East Asia in 1996-97, the World Bank pledged \$16.5 billion to help Korea, Indonesia, Thailand and the Philippines. The \$3 billion loan to Korea trumped the earlier \$1.2 billion loan to Mexico and became the largest loan in World Bank history. Lending to East Asia doubled in 1998 to \$10 billion.

After each crisis, private flows fell sharply resulting in the need for official support and debt restructuring. The World Bank and the IMF provided balance of payments support to the countries in crisis in exchange for financial sector reforms. East Asia received one third of total Bank lending in 1999. The five largest borrowers in that year were Argentina (\$3.2 billion), Indonesia (\$2.7 billion), China (\$2.1 billion) Korea (\$2.0 billion) and Russia (\$1.9 billion). The cost of repeated crises in terms of lost GDP and social dislocation and increased poverty was immense. By the end of the 1990s, the debt outstanding had risen to \$2.4 trillion, per capita GDP growth in the developing countries was 1.7% per annum and net transfers to the developing countries were negative.

V. The Failure of Development

Two and a half decades of market driven trade, financial and economic policies have failed to deliver on the promise of higher GDP growth and better living standards in the developing countries. Per capita GDP growth rates in the developing countries have declined each decade since 1970 despite the decline in population growth rates (Table 5). The Asian countries that have grown the fastest and reduced poverty were those that were able to avoid the strict conditionality of the World Bank and the IMF. They maintained a mixed public/private economy and liberalized trade and capital flows at their own pace.

Table 5 Growth of Real GDP 1971-2000

	GDP per capita In 2002*	Growth (percent)		
		1971-80	1981-90	1991-2000
Industrial countries	\$27,185	2.6	2.5	1.8
United States	\$36,224	2.2	2.2	2.2
Developing Countries	\$1,194	2.9	0.7	1.7
Asia	742	3.0	4.9	5.4
Latin America	3,149	3.3	-0.9	1.7
MENA	1,917	4.0	0.7	1.2
Sub-Sahara Africa	460	0.7	-1.1	-0.2

*current prices

Source: Global Economic Prospects 2004, World Bank. Washington

Neo-liberal policies have not resulted in reduced poverty. According to the World Bank, three billion people, half of the world's population and 60% of the population of the developing world live on less than \$2 a day. But these World Bank figures understate the extent of poverty in the developing countries. As Table 5 shows the average income of the five billion people living in the developing countries is \$1200 per annum or \$3 a day and this is not enough to provide each person with their daily food requirements and basic needs for housing, literacy, health care, clean water and sanitation.

Neo-liberal policies have also resulted in a widening of the global distribution of income. The high income countries with less than 14% of the world's population own 80% of world income. This leaves the developing countries with 80% of the world's population with less than 20% of world income. The gap between the average income of the richest and poorest countries has increased from 70:1 to more than 400:1. It is no more possible for a poor person in Ethiopia to imagine what it is like to live on \$27,000 or \$43,000 per annum than it is for a US or Swiss citizen to imagine what it means to live on \$100 a year.

The concentration of world income is remarkable for another reason. Only a small number of countries are in the two richest groups. The 20 countries in the richest group with average annual incomes of \$15,892 to \$43,600 consist of 13 in Western Europe, the US, Canada, Japan, Singapore, Australia, New Zealand and Israel. The 9 countries in the second richest group with average annual incomes of \$5,793 to \$15,891 are Spain, Portugal, Greece, Slovenia, Cyprus, Saudi Arabia, Korea, Argentina and Barbados. The rest of the world falls in the below \$5,800 category with the majority in the below \$800 average annual per capita income group.²⁴

The neo-liberal framework provides an enabling environment for the top 10-20% of the population in the developing countries to increase their share of national income, and over the past two decades, the distribution of income has also widened in developing countries. The US recently concluded a Free Trade agreement with four Central American countries: Guatemala, Honduras, El Salvador and Nicaragua. The top 20% of the population in these countries control 60% of total income while 80% of the population lives in poverty in the rural areas. Land reform programs and measures to redistribute incomes to the bottom 40% of the population are not part of the structural adjustment or globalization policies and the liberalization of trade is likely to benefit the rich and harm the poor.

The removal of restrictions on agricultural imports by developing countries allowed the rich countries to dump their surplus agricultural products on the poor. Imports of corn, rice and wheat at 40% below the domestic cost of production have displaced and continue to displace subsistence producers in Indonesia, Pakistan, Philippines, Mexico, Colombia and many other developing countries. However, subsistence farmers are not being displaced because producers in the industrial countries are more efficient but because they are heavily subsidized. Subsidies were equal to 40% of the value of agricultural output in the OECD countries in 1995 and are currently estimated at over \$350 billion per annum.

Overall, there is no evidence that the liberalization of trade and capital flows have been beneficial to the developing countries. A World Bank study showed that after the Uruguay Round of multilateral trade negotiations in 1994, the poorest region in the world, Sub-Sahara Africa was worse off. Africa was worse off by 2% not because it received a smaller share of the gains from trade but because it actually did not gain.²⁵

The failure of development can also be seen in other economic indicators:

- The debt outstanding has risen to \$2.4 trillion and the debt burden is as unmanageable as it was in 1980. The debt/GDP ratio is 40% and the debt/exports ratio is 113%. The figures for Africa and Latin America are much higher.²⁶

²⁴ International Monetary Fund 2003

²⁵ Stiglitz (2001)

²⁶ For Sub-Sahara Africa, the debt/GDP ratio is 65% and the debt/export ratio is 165%; for Latin America, the debt/GDP ratio is 48% and the debt/export ratio is 174%.

- The increase in flows of foreign direct investment has resulted in profit remittances becoming a growing component of the current account deficit.
- The demand in structural adjustment programs that developing countries increase exports has resulted in the global oversupply of commodities and falling prices.
- Billions of people are working long hours for subsistence incomes in the informal sector.

The failure of development is also evident in the social indicators. Per capita incomes in many African countries have fallen to below 1960 levels and in the process most of the gains in education and health in the 1970s have been lost. Infant mortality rates have risen, life expectancy has declined and fewer children are in school. A child born in Africa today has a life expectancy that is less than half that of a child in the industrial countries. “Every hour, more than 500 African mothers lose a small child. In 2002, more than four million African children died because of peri-natal conditions associated with poverty---diarrhoeal diseases, pneumonia and other respiratory problems and malaria.”²⁷

The poorest countries lack the financial resources to maintain, let alone, expand the social infrastructure. The erosion of the tax base which has resulted from the liberalization policies and the cuts in public spending which were part of the structural adjustment programs have been the major cause of the decline in living standards.

In Latin America, there have also been reversals in per capita income levels and increased poverty. Recent data from the Economic Commission of Latin America indicate that 220 million people, 43.4% of the population is living in poverty. In Argentina, 55% of the population has fallen into poverty according to the National Institute of Statistics, and six million people are hungry. Argentina produces enough food to provide every citizen with 3200 calories per day even after allowing for exports but the distribution of income has become so uneven that people cannot afford to buy their daily food requirements.

It might be helpful to review the performance in two countries, Ethiopia and Mexico that have accepted the policy advice of the World Bank and the IMF. Since 1982, Ethiopia has been implementing structural adjustment programs and has passed the decision point for debt relief under the HIPC initiative. But despite this compliance, Ethiopia with a population of 67 million has the lowest per capita income in the world (\$100) and a highly unequal distribution of income. The top 20% of the population controls 48% of the nation’s income while the bottom 40% has 18%. Ethiopia has the third largest number of people living with HIV/AIDS. Fifty four percent of the population is engaged in low productivity agriculture; only 24 percent of the population has access to clean water. Sixty percent of the population is illiterate; infant mortality is 116 per 1000 and the debt outstanding is 109% of GDP.

Mexico is a middle income country with the highest per capita income in Latin America but poverty rates have increased because the distribution of income has become more

²⁷ The World Health Report 2003

unequal over the past 20 years. The richest 10% of the population receive 42% of national income while the lowest 40% of the population receive 11%. Official statistics indicate that the percent of the population living below the national poverty line increased from 63% in 1984 to 73% in 1996.

The liberalization of the Mexican economy began after the debt crisis in 1982 and it continued with the entry of Mexico into GATT in 1986. The pace of liberalization accelerated with the North American Free Trade Agreement (NAFTA) in 1994. NAFTA gave a strong boost to the export of manufactured goods but this did not translate into higher wages or employment. Over the past decade, unemployment has been increasing and two out of every three jobs is in the informal sector.

Liberalization has also deepened the crisis in the rural areas. Mexican small farmers have been poor for decades but the removal of domestic price supports and the flood of cheaper and heavily subsidized corn imports from the US have driven hundreds of thousands of poor farmers to abandon their farms and migrate to the towns or to the US. Official government data put the percent of the rural population living in poverty at 92%.

Neo-liberal policies stressed reliance on the private sector but private flows have proved to be an unstable source of development financing. Private flows are concentrated in a small number of middle income countries and they exhibit considerable volatility. Over the past four years, the net transfer of financial resources has been negative for all developing regions. In 2002, the negative net transfer was almost double the average annual level of 1998-2000.

Table 6. Net Transfer of financial resources to developing countries, 1994-2002

<i>Billions of United States dollars</i>	<i>Average 1994-1997</i>	<i>Average 1998-2000</i>	<i>2001</i>	<i>2002^a</i>
Developing Economies	30.4	-111.3	-155.1	-192.5
Africa	3.1	-0.6	-11.2	-9.0
Eastern and Southern Asia	4.6	-125.1	-111.0	-141.5
Western Asia	14.2	-4.2	-34.0	-13.2
Latin America and the Caribbean	10.8	17.3	2.0	-28.8
Memorandum item:				
Heavily indebted poor countries	10.6	10.0	8.2	10.3

^a Preliminary estimate.

Source: World Economic and Social Survey 2003, United Nations, New York

Net transfers to the developing countries have declined because there has been a decline both in net private flows and net official flows, and a large build up of reserves by many developing countries. Negative net transfers mean that capital flows to the developing countries are less than financial flows to the advanced countries. Negative net transfers mean that the poorest countries are suppressing consumption and investment spending to transfer resources to the richest countries. The goals of growth and poverty reduction in the developing countries are not consistent with a negative net transfer of resources.

V. Concluding Overview

The Keynesian mixed public/private economy with a strong role for governments was the guiding principle of development policy after World War II. The period 1950-75 witnessed unprecedented increases in the rate of growth of output in the world economy. Part of this growth could be attributed to the recovery and reconstruction in the industrial countries and to the end of colonialism in Asia and Africa. But governments played a major role in increasing public sector investment, setting macro-economic and social policies and supporting private sector development.

The World Bank played a leading role in influencing donor attitudes and policies in developing countries. The Bank increased its lending more than tenfold from 1970-80, convened Aid Group meetings and High Level Commissions to mobilize additional grant funds from donors and directed lending to reducing the number of people living in poverty. The Cold War, competition among the developed countries for overseas markets and the slow growth of development assistance constrained but did not overwhelm the widespread commitment to raising growth rates in the developing countries.

The postwar economic boom and the pace of development came to an abrupt halt with the quadrupling of oil prices in the 1970s. The ensuing inflation and recession in the industrial countries led to the political and economic shift in favor of greater reliance on the private sector. The Keynesian view of the role of the government in promoting economic growth was not proven wrong but was overtaken by the political shift to the right that followed the extraordinary events of the 1970s --- the end of the fixed exchange rate system, then devaluation of the dollar, the increase in oil prices and the recycling of the oil surplus through commercial banks. The debt crisis in the early 1980s provided the occasion for the Bretton Woods institutions to impose the neo-liberal prescription of the major shareholders on the developing countries.

The evidence after 25 years is that the neo-liberal framework has not worked to raise growth rates or reduce poverty in the developing countries. The lowering of trade barriers has resulted in the decline in the share of manufacturing in total output or what UNCTAD calls the premature de-industrialization of Latin America. The demand to increase exports has contributed to global oversupply and falling commodity prices. Millions of subsistence producers have been thrown off the land by the flood of subsidized imports from the industrial countries. The liberalization of capital markets has produced financial crises with increasing regularity and severity. The decline in net official flows and the instability of private flows have resulted in a negative net transfer of financial resources to the developing countries.

The pendulum appears to be swinging again in favor of a stronger role for governments in the economy. The current US administration is using expansionary fiscal policies and cheap money to stimulate an economic recovery. Keynesian policies are applicable to the situation of low aggregate demand, high unemployment and low inflation prevailing in the developing countries, and the World Bank and the IMF are promoting higher levels of

investment in infrastructure and the social sectors to achieve the Millenium Development Goals. But the failure of the neo-liberal policy package does not imply that the Keynesian mixed economy framework will produce better results. Increased government spending will raise output growth and mitigate the extent of poverty but long term, sustainable and equitable growth in the developing countries will require the removal of obstacles that have been noted since the mid-1960s --- the decline commodity prices, the lack of access to markets in the industrial countries, the lack of long term capital and the heavy debt burden.

Global trade and financial arrangements were designed by the rich countries to benefit the rich countries. Marginal and ad hoc adjustments have been made but these arrangements do not promote the interests or meet the needs of developing countries. The inadequacy of current global trade and financial arrangements are reflected in:

- The high level of agricultural protectionism in the industrial countries.
- The chronic deterioration in the terms of trade.
- The lack of access of developing countries to the markets of the industrial countries.
- The lack of long term concessional capital.
- The short maturity, volatility and country concentration of private flows.
- The lack of mechanisms to restructure the unsustainable debt burden.

There is at present no development agenda. The often repeated international commitment to reducing poverty is contradicted by the facts and the lack of programs or policies to realize this commitment. Development has taken a back seat to other international priorities. The industrial countries are giving priority to fighting the war on terrorism and the increase in illegal immigration. They appear unwilling to link these problems to the growing desperation of the poor. The developing countries, groups and regions are caught in a low level equilibrium trap-- Low growth, low savings and low investment.

Economic growth is essential to growth and poverty reduction and higher levels of investment are necessary to achieve higher GDP growth. As noted in the World Bank's Annual Report for 2003, the countries that have reduced poverty most effectively are those that have grown the fastest. In the industrial countries, average capital per worker is \$150,000 while in the developing countries it is only \$13,000.²⁸ Net positive transfers are needed to raise the level of investment in the developing countries and this will require substantial increases in official flows. Private flows are not going to help the poor because the poorest countries receive only 10% of global foreign direct investment.

There are many obstacles to growth in developing countries. Foremost among them are the unequal distribution of income and the lack of attention to raising agricultural productivity and creating jobs. The poor cannot work their way out of poverty unless and until these domestic constraints are removed and there is a more enabling international environment for trade and capital flows.

²⁸ World Bank 1999 b.

Box 1. Women in Development and the World Bank

The World Bank's focus on poverty reduction during the 1970s took the form of increased lending and a redirection of lending to raising the productivity of the poorest groups. There was no specific goal to address the needs of women but at the time, this seemed unnecessary. It had long been known that the bulk of the world's poor lived in the rural areas and were engaged in low productivity agricultural activities. It was also known that women carried out a large part of these activities in addition to caring for the home and children, walking long distances to fetch water and firewood and looking for ways to earn cash income. Reducing global poverty was synonymous with helping to improve the living standards of women. A large proportion of poor households were headed by women and making women more productive would improve their living conditions and increase output.

Throughout the 1970s, developing countries were making great strides in increasing agricultural production, expanding primary school education, adult and functional literacy programs and public health, and they were financing these programs with domestic resources. Therefore, it was not necessary to write poverty reduction strategies for developing countries. To the contrary, the World Bank was complementing the efforts of governments as varied as Tanzania (under President Nyrere), Iran (under the Shah) and Brazil (under the control of a military government) to modernize their economies and reduce poverty.

World Bank lending for agriculture and rural development increased steadily in the 1970s reaching a peak of 40% of total lending in 1978 and averaging 30% of total lending for the decade. The Bank's poverty focus could be seen in the fact that by the end of the decade, 50% of the lending was poverty related. Infrastructure lending which had been more than 60% of lending in the 1950s and 1960s was reduced to one third and included projects to build rural roads and provide access to clean water and sanitation. Despite the change both qualitatively and quantitatively in the Bank's lending strategy, there was still room for improvement and in 1977, the Bank appointed Gloria Scott as the Senior Adviser to Women in Development in the Projects Department. Her task was to ensure that the involvement of women was explicitly considered in all projects, particularly those in agriculture, education and health.

In the 1980s, the priorities of the World Bank shifted to complementing the effort of the IMF to prevent an international banking crisis and debt management. The Structural Adjustment Programs emphasized spending cuts that fell on all sectors including agriculture and on price supports and food subsidies. The impact of the spending cuts and other conditions was regressive and the poor bore the brunt of the burden of the adjustment. There was no attempt by the Bank and the Fund to assess the impact of these programs on the poor or on women. In 1989 in response to criticism from UNICEF, the Bank acknowledged that the spending cuts harmed the poor but said that it was not possible to separate the effects of the conditionality from the recession, and that in any case, the cuts in spending had to be made. On women, the 1989 Annual Report said "Women in development is still a new field, its analytic base narrow".

In the 1990s, official flows to developing countries declined except in response to financial crises in the middle income countries. In 1992-96, official flows accounted for only 13.5% of net flows to developing countries. Moreover, both multilateral and bilateral flows became increasingly linked to special issues such as helping the economies in transition, post-conflict reconstruction and humanitarian assistance and not growth and poverty reduction in the developing countries.

One of the UN Millennium Development Goals is to eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels of education no later than 2015. This goal is unlikely to be achieved. Sixty percent of the primary school age children not attending school are girls and two thirds of the 900 million illiterate adults in the world are women.

The Bank has retained an Adviser on WID since 1977 even as project lending and net flows to developing countries declined. In 1995 the WID unit was relocated to the Poverty Reduction and Economic Management network and has produced policy papers and revised operational guidelines to promote gender issues. In 2002, the Bank released a new gender strategy “Integrating Gender into the World Bank’s Work: A Strategy for Action” but this strategy is likely to join the dozen or more strategies currently being pursued by the Bank. The Bank’s credibility in poverty reduction and engendering development is being undermined by the decline in its net lending.

Bank lending stagnated at around \$16 billion per annum in the first half of the 1990s and has since declined to \$10 billion in 2002 and 2003. IDA lending has stagnated at around \$6 billion for the decade. Overall, net transfers from the World Bank and IDA have been negative at \$2 billion per annum and the number has been increasing as total Bank lending has fallen back to the 1982-83 level. The composition of lending has also changed. Policy based lending and debt restructuring account for over 30% of total lending while lending for agriculture has fallen to 10%. The Bank’s commitment to poverty reduction and improving the condition of women has to be judged not on what it says but on its lending and policies.

Annex

Table 1: Debt and Debt Service for Developing Countries						
	1970	1980	1990	2000	2001	2002
Total debt stocks (US\$ billions)						
East Asia & Pacific	8.6	64.6	239.0	497.4	504.1	509.5
Europe & Central Asia	5.0	75.6	217.9	503.6	497.8	511.8
Latin America & Caribbean	32.6	257.4	475.4	782.9	764.9	789.4
Middle East & North Africa	4.8	83.4	182.9	202.1	200.6	202.3
South Asia	12.3	37.8	129.5	165.1	161.7	166.8
Sub-Saharan Africa	6.9	60.8	179.9	211.4	203.0	204.4
Total (all developing countries)	70.2	579.6	1421.6	2362.6	2332.1	2384.2
Debt service (LTDS), total long-term (US\$ billions)						
East Asia & Pacific	0.8	7.1	27.8	68.4	68.9	69.6
Europe & Central Asia	0.7	10.3	28.6	66.0	84.6	71.0
Latin America & Caribbean	4.8	38.8	37.9	158.1	152.2	123.3
Middle East & North Africa	0.5	8.7	20.3	20.8	19.1	18.0
South Asia	0.8	2.1	8.8	14.9	13.4	13.1
Sub-Saharan Africa	0.6	5.2	9.0	11.9	12.1	11.8
Total (all developing countries)	8.2	72.1	132.4	340.1	350.2	306.7
Total debt (EDT)/Exports of goods and services (XGS)						
East Asia & Pacific	..	190.0%	135.2%	77.2%	79.9%	71.1%
Europe & Central Asia	..	422.3%	306.3%	121.9%	114.6%	110.1%
Latin America & Caribbean	..	201.6%	254.5%	168.4%	170.5%	173.6%
Middle East & North Africa	..	40.9%	118.9%	88.1%	88.7%	86.9%
South Asia	..	164.3%	324.7%	154.1%	147.1%	138.6%
Sub-Saharan Africa	..	65.4%	208.6%	175.2%	170.2%	164.5%
Total (all developing countries)	..	84.6%	170.8%	119.4%	118.5%	112.8%
Debt service (TDS)/Exports of goods and services (XGS)						
East Asia & Pacific	..	26.7%	17.8%	11.4%	12.1%	10.9%
Europe & Central Asia	..	70.2%	44.8%	18.4%	21.7%	18.0%
Latin America & Caribbean	..	36.3%	24.4%	38.6%	35.5%	29.6%
Middle East & North Africa	..	5.6%	15.6%	10.1%	9.5%	8.7%
South Asia	..	12.0%	28.7%	14.7%	12.7%	11.4%
Sub-Saharan Africa	..	7.2%	12.8%	11.2%	11.2%	10.7%
Total (all developing countries)	..	13.0%	18.7%	19.3%	19.2%	16.2%
Total debt (EDT)/GNI						
East Asia & Pacific	..	16.2%	35.5%	31.8%	31.1%	28.7%
Europe & Central Asia	..	80.6%	17.6%	54.2%	51.2%	48.6%
Latin America & Caribbean	..	35.8%	44.6%	40.9%	41.5%	48.2%
Middle East & North Africa	..	22.0%	45.7%	30.5%	29.6%	30.5%
South Asia	..	16.2%	32.4%	27.9%	26.5%	25.4%
Sub-Saharan Africa	..	23.5%	63.1%	68.8%	67.7%	65.0%
Total (all developing countries)	..	20.6%	35.2%	39.7%	38.9%	39.1%
Source: <i>Global Development Finance 2003: Striving for Stability in Development Finance</i> , World Bank, 2003. and <i>External Debt Statistics</i> , OECD, Various Issues						

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