A Policy Brawl at the World Bank Goes Public

by Michele and Jeffrey Steinberg

At the very moment that U.S. Treasury Secretary Larry Summers and the top echelon at the Federal Reserve were orchestrating a desperate cover-up of the June 5 Bank for International Settlements report that forecast a "hard landing" for the U.S. and world economies, a fight erupted inside the World Bank, revealing that the support for the so-called "Washington Consensus on Monetary Policy" is rapidly eroding.

In a June 14 press release, the Bretton Woods Project, a London-based research organization, announced the resignation of a senior consultant to the World Bank, over several controversial passages he had authored in the Bank's annual World Development Report on global poverty. Dr. Ravi Kanbur, Lee Professor of World Affairs at Cornell University, was hired by the World Bank in the spring of 1998, to be the lead author of the annual World Development Report (WDR). Due to the fact that the report was a review of the decade, the World Bank had planned to produce and distribute 150,000 copies, and use it as a key planning document for the next decade's "development strategy." Dr. Kanbur had worked for the World Bank during 1989-97, concluding his full-time work as Chief Economist for Africa, and Principal Adviser to the Chief Economist.

When he returned to the Bank to head up the writing of the document, he insisted that the report be circulated outside the Bank in draft form, to draw upon the resources of a wide range of governmental and private sector agencies, concerned with the alleviation of global poverty.

On July 17, 1998, Dr. Kanbur wrote to Bretton Woods Project director Alex Wilks, "Since you asked for my views, I wanted to let you know my own personal philosophy and perspective as we go into the processes leading up to the Poverty WDR. First and foremost, I want to stress that I would stand behind any Report that I put my name to, and would not submit to any substantive editing I did not agree with."

Apparently, the top brass at the World Bank found parts of the report to be objectionable, and when they moved to have the report rewritten, Dr. Kanbur walked out, provoking a policy brawl inside the Bank. In the June 14, 2000 press release, Wilks wrote, "The resignation of the lead author of this flagship Bank report confirms our view that the World Bank is unable to accept dissenting views, whether from insiders or outsiders. Coming soon after Joe Stiglitz departed as Chief Economist, this is a major blow for an institution trying to position itself as a 'knowledge Bank' and a 'listening Bank.' It raises questions of who really calls the shots at the Bank and what evidence or opinions about the impacts of globalization they are trying to suppress."

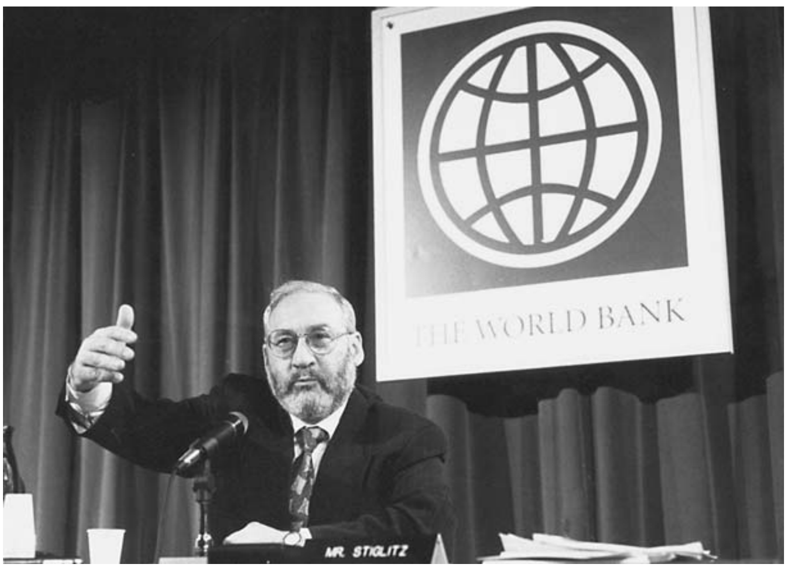
Wilks then dropped a bombshell: "Reliable Washington sources indicate that U.S. Treasury Secretary Larry Summers has got directly involved in rewriting the globalization section of this report, which is likely to be extremely prominent in future discussions of international issues and in guiding aid interventions."

What Is Going On Here?

Dr. Kanbur could hardly be called a flaming radical. However, segments of the draft World Development Report reviewed by *EIR* did contain criticisms of the performance of the Bank and the International Monetary Fund (IMF) in the recent spate of monetary crises, particularly the 1997-98 so-called Asia crisis, and the autumn 1998 collapse of the Long Term Capital Management hedge fund. He dared to suggest that it was not just the developing sector that engaged in "risky and dubious practices," but that the LTCM case had demonstrated that the leading industrialized countries, including the United States, were also culprits.

In the draft report, he made make the following observation about capital controls, which certainly would have sent Summers off into orbit:

"In order to avoid the negative effects of volatility in short-term capital flows," Dr. Kanbur wrote, "countries may



Former World Bank Chief Economist Joseph Stiglitz. His ouster, and that of Dr. Ravi Kanbur, "raises questions of who really calls the shots at the Bank and what evidence or opinions about the impacts of globalization they are trying to suppress," wrote Bretton Woods Project director Alex Wilks.

consider introducing capital controls. Controls on short-term capital inflows are often opposed on the grounds that they may deprive developing countries of much-needed capital. However, controls on short-term capital flows have been shown to affect the composition of capital flows in favor of more stable, longer-term investment."

The case of Malaysia, where Prime Minister Dr. Mahathir bin Mohamad imposed capital and exchange controls in September 1998, proved that Dr. Kanbur's views were sound.

In a paper that he co-authored with Todd Sandler and Kevin M. Morrison in the Fall 1999 issue of the World Bank's *Outreach* journal, Dr. Kanbur had also dared to challenge another cornerstone of the "Washington Consensus on Monetary Policy," the idea that the IMF should impose "one size fits all" conditionalities on all its loan recipients.

"What is needed," the authors wrote, "is a more radical approach in which donors really do cede control to the recipient country governments, advancing their own perspective on development strategy through general dialogue with the country and with each other rather than through specific programs or projects. The tying of money to specific projects, policy reforms, or procurement contracts should end. . . . The present mechanisms for implementing conditionalities are seriously flawed. . . . The key issue is whether it is feasible or desirable to force or induce the adoption of policies and strategies by a government that does not believe in them or a population that will not support them. The evidence suggests that such attempts are not sustainable, and the efforts by different donors to impose their own different conditionalities have proved detrimental to the development process."

Sources close to the World Bank have told *EIR* that Dr. Kanbur's resignation, or ouster, has brought to the surface a far more extensive battle, which has been raging for some time, between what the sources called "experimentalists," such as Dr. Kanbur and former Chief Economist and Vice President of the World Bank Joseph Stiglitz, and "hard-liners," who believe that the IMF and the World Bank should be the sole global arbiters of all monetary and development policy. Stiglitz has bluntly stated that Treasury Secretary Summers, himself a former World Bank Chief Economist, was a fanatical advocate of market liberalization, in the early years of the Clinton Administration, and that the policies that Summers rammed through, created the preconditions for the speculation-driven rape of Asia in 1997-98.

While *EIR* has not been able to independently corroborate the report from the Bretton Woods Project in London, that Summers is personally overseeing the rewrite of the World Development Report, the shoe certainly fits. And, it appears that the dumping of Dr. Kanbur and Stiglitz has done little to stifle the mood of revolt inside the international financial institutions, particularly in the light of the Bank's decision to deep-six the Kanbur draft report.

European sources reported in mid-July, that World Bank President James Wolfensohn has said that he will be taking a leave of absence from his duties at the Bank.

Censorship Defeated

'New Bretton Woods' Ad Is Published in Europe

On the eve of the July 21-23 Group of Eight summit meeting in Okinawa, Japan, a call for an "Ad Hoc Committee for a New Bretton Woods," signed by 90 high-ranking personalities from around the world, was published in several European newspapers. But the German daily *Frankfurter Allgemeine Zeitung,* apparently fearful of the heat that this proposal could be expected to generate, did not even dare to publish the call as a paid advertisement. In a display of pitiable arrogance, the advertising section of the newspaper rejected the advertisement, on "principled grounds," without specifying these further.

The elected officials, economists, and other signators of the call, astonished at the conduct of the *FAZ,* immediately placed the ad in other leading newspapers, including two German dailies, the *Frankfurter Rundschau* and *Die Welt,* and the London-based Arabic daily, *Al Arab International.*

A Schiller Institute press release on July 20 charged: "Apparently, the limits of tolerance of the 'liberal' *FAZ* have been reached when the issue is a fundamental change in course in economic and monetary policy, in the context of the global financial crisis. It is no coincidence that the editor responsible for the economics page and coordination, Dr. Hans D. Barbier, is an "ultraliberal" and fanatical follower of Friedrich von Hayek, who considers the "social market economy" a variation of "socialism." Regulation of financial speculation and fixed exchange rates are apparently themes which simply are not allowed to be discussed.

"The decision on the part of the *FAZ,* to reject such 'principled' questions of economic survival, which had motivated those political personalities who signed for the creation of a new Bretton Woods, demonstrates the desolate condition of one part of the German elite, in its hysterical refusal to face reality: such 'clever heads' turn so quickly into narrow-minded ideologues."

Text of the Ad

The following is the text of the call to form an Ad Hoc Committee for a New Bretton Woods global financial system, which was initiated on April 7, 2000. The names of the signators are on the Internet at http://www.schiller-institut.de):

The governments of the G-7 nations have repeatedly demonstrated their unwillingness and inability to prevent the threatened collapse of the global financial system, through a prompt, and thorough reorganization of the system. This ren-