20 The World Bank, ‘Global Keynesianism’ and the Distribution of the Gains from Growth

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‘I would like to see the Board of the Bank composed of imaginative expansionists, and the Board of the Fund of cautious bankers.’
(J.M. Keynes, 1945/1991, p. 194)

‘Why did the World Bank move away from project lending to policy lending which included conditionality? In my interpretation there was a certain personal element involved. When Robert McNamara took charge of the World Bank he discovered to his dismay that he had become a poor man compared to his previous situation. As US Secretary of Defense he had handled large multi-billion dollar budgets. The World Bank was a relatively small affair under the project basis because what we had not realised at Bretton Woods but which had become clear after 10 or 15 years of World Bank operation [is that] under the project basis you cannot push out a lot of money. Mr McNamara was groping for something to give the World Bank and himself a bigger role to play in the world.’ (H.W. Singer, 1994, p. 46)

20.1 INTRODUCTION

Sir Hans Singer, whom this volume celebrates, was a pupil of John Maynard Keynes at Cambridge, and in 1945, attended the Bretton Woods negotiations at which Keynes and others designed the institutions which now seek to regulate and stimulate the international economy: the World Bank, the IMF and the GATT. Sir Hans has provided, ever since that time, frequent creative suggestions concerning the way in which all of those institutions, separately and in relation to the UN system, should set about
the task of global economic governance, with a particular flurry of activity around 1994/5 when the Bretton Woods institutions celebrated their half-century. By this time, of course, the Bretton Woods institutions had departed from their original Articles of Agreement and implicated the World Bank progressively more deeply in policy-based programme lending alongside its original project lending functions. This paper attempts, a little belatedly, to take up some of the concerns aroused by that flurry of activity, with particular reference to the World Bank, which Keynes, as we saw above, saw as having the principal stimulative and entrepreneurial role. The concerns have been expressed by Sir Hans in the following way:

The shift to programme lending and policy conditionality tied in with three other developments. First, the withering away of the development functions of the UN ... created a gap into which it was tempting and easy for the World Bank to move together with the IMF. Second, the debt crisis of the 1980s made the developing countries pliant in accepting conditionality pressures from the Bretton Woods institutions ... Third, in the process of replacing the UN as a focus of development policy guidance and in line with trends in the major industrial countries, the World Bank developed, again together with the IMF, a new ‘Washington Consensus’ emphasising government failures, market orientation, liberalisation, privatisation, etc. ... Now the purpose of this is, I am using the language of the IMF and World Bank now, to cut down today but in doing so lay the foundations for subsequent sustainable growth. Now the fact is that if you cut down today it is just as likely that if you cut investment today that does not lay the foundations for subsequent growth, that does exactly the opposite. The IMF are quite fond of illustrating their policy with the French proverb reculer pour mieux sauter. The trouble is that what we have today is that in all too many cases the developing countries stand on the edge of an abyss and therefore by stepping back they don’t gain manoeuvring space for moving forward but they fall into the abyss. (Singer, 1995, p. 469, and 1994, p. 55)

The concern expressed by Sir Hans is, of course, one which has to be confronted not only by the World Bank but by every aid donor, since Bank and donors share the objective of stimulating development in poor countries. The specific question which is addressed in this paper is whether developing countries are likely to move further away from the abyss if Bank and donors relax their posture and increase the volume of project aid (or uncon-