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The World Bank's *World Development Report, 2006: Equity and Development*

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The World Bank's annual flagship publication, *The World Development Report* (WDR) generally contains little more than a recycling of some part of the Bank's usual ideologically-driven agenda, providing developing countries with helpful "advice" on what they should do on issues such as services, institutions or the investment climate.

This year, it is slightly different. At first sight, its presentation of the problems appears to be very largely a straight-faced recycling of arguments NGOs and others have been making to the Bank for decades (albeit with a few inevitable Bank-like twists) – all revealed with a flourish, as though the Bank had just discovered them. It is very encouraging to find that the Bank at last seems to be getting part of the message – even if it still cannot bring itself to acknowledge the fundamental changes this implies for what it does and how it does it.

But the WDR's emphasis is still very firmly on what happens (or should happen) *within* developing countries. While there are very strong parallels at the global level, the single page of text devoted to "Global Inequalities in Power" in the 273-page report makes it clear that the Bank still has a long way to go in working out how the arguments presented in the WDR apply in this context.

Knowing that it is sometimes possible to be too close to a problem – and that the Bank is uncomfortably close to this one – we thought we should help the Bank's staff and management out by offering them the benefit of a more detached view on how some of their arguments apply to our current system of global economic governance.

The passages in ***bold*** below are direct quotes from the Overview section of the WDR.

"Economic and political inequality tend to lead to economic institutions that systematically favour the interests of those with more influence"

- It is difficult to think of three institutions which better demonstrate this point than the key institutions governing the global economy – the IMF, the WTO and the World Bank itself – whose governance structures allow them to be harnessed by Northern governments as mechanisms for controlling Southern governments in Northern political and commercial interests.

"There is unequal capacity to influence the policy agenda: the interests of the disenfranchised may never be voiced or represented"

- In both the World Bank and the IMF, each country's vote is weighted in accordance with the size of its economy. As a result, while low- and middle-income countries represent nearly 85% of the world's population, they have just 37% of the votes in the IBRD[1], 34% in IDA and 33% in the IMF. This means that the average high-income country has between 9 and 11 times as many votes per million people as the average low- or middle-income country. The poorest countries are at a still greater disadvantage.
- Combined with the "constituency" system, this means that only 9 of the Bank's, and 10 of the Fund's 24 Executive Directors are from developing countries (excluding high-income countries - Kuwait in the Bank, Korea in the Fund, and Saudi Arabia in both), and that they can cast only 23-28% of the votes.
- There is a long-established, and consistently applied, "tradition" by which the President of the World Bank is an American citizen chosen by the US government[2], and the Managing Director of the IMF is a European chosen by Western European governments, and that these

candidates are not opposed by other member countries. This “tradition” was followed most recently in the appointment of former Spanish Economy Minister Rodrigo de Rato as head of the IMF in 2004 and former US Deputy Defence Secretary Paul Wolfowitz as head of the World Bank earlier this year.

- The more recent (1994) “tradition” that the position of Director General (DG) of the WTO would alternate between a developed and a developing country national has been altogether less consistently applied. While four-fifths of WTO members are developing countries, four of its five DGs have been from developed countries – the latest being, of all people, the European Union’s chief trade negotiator Pascal Lamy. Lamy was reportedly appointed after the US gave him its backing as a pay-off to European governments for supporting Paul Wolfowitz as World Bank President in the face of widespread and intense hostility. By the time Lamy completes his term of office in 2009, a developing country national (Supachai Panitchpakdi of Thailand) will have headed it for only three of the organisation’s nearly 15 years of existence.
- While the WTO’s formal structures are, in principle, based on “one-country-one-vote”, in practice they are largely circumvented, so that most decisions are made behind closed doors in unofficial “Mini-Ministerials” and “green room” meetings, among limited groups of members (often hand-picked by developed country governments), with unfettered use of arm-twisting through intense political, economic and financial pressure.
- In addition, the lack of funds in many developing countries means that their delegations are hopelessly outgunned from the start in WTO negotiations. At the WTO Ministerial Conference in Doha in 2001, for example, the European Union (which negotiates as a single block) had more than 500 delegates, while Mauritius had just two, and Haiti, the poorest country in the Western hemisphere, had none at all. Some developing countries in the WTO, such as Mali, have no representation in Geneva at all, so that their representatives may have to travel more than 300 miles to attend a meeting.

“Economic, political and social inequalities tend to reproduce themselves over time and across generations.”

- The architecture of the global economy, including the IMF, the World Bank and the GATT (the forerunner of the WTO), was designed during the colonial era. Few developing countries took part in the negotiations which led to the creation of these institutions, the influence of those which did was at best very limited, and most of their governments (outside Latin America) were in any case controlled by the colonial powers.

· The weighted voting systems of the Fund and Bank, and the undemocratic “traditions” for selecting their heads, were also established in this era – a time when most of their members were developed countries, and most Fund and Bank activities were directed at them. These anachronistic privileges have been, and continue to be, jealously guarded by the developed countries.

- Attitudes have been as slow to change since the colonial era as global governance structures. The principle of economic policy conditionality – and particularly the conditionality of financial support on economic policies based on the commercial interests and ideologies of the developed countries – embodies an underlying neocolonial attitude in the North, that “we” know how to run “their” economies better than they do.

“When policies challenge privileges, powerful groups may seek to block reforms”

There can be few better illustrations of this process than

- the lack of response to civil society’s and Southern governments’ calls, repeated for more than 20 years, for measures to deal with the debt crisis effectively,
- the blockage of much-needed democratic reform of the anachronistic and seriously skewed mechanisms of global economic governance embodied in the World Bank, IMF and WTO,
- the exclusion of developing countries’ key concerns from the current round of WTO negotiations (issues arising from the implementation of the existing “Agreements” and the much diminished principle of Special and Differential Treatment) before the negotiations even started, and

- the exclusion of Agriculture – an issue of critical importance to most developing countries – from the remit of GATT, and, when it was brought into the multilateral trading system, the design of the WTO Agreement on Agriculture in such a way as to require minimal changes in developed countries' policies.

"When developing countries have little or no voice in global governance, the rules can be inappropriate and costly to poorer countries."

As well as the blockage of progress on these issues, the very limited influence of Southern countries in the IMF, the World Bank and the WTO has led directly to

- the imposition of structural adjustment policies which have damaged sustainable development and imposed major social costs in terms of poverty, health and education;
- the appalling social and economic effects of the mismanaged economic "transition" in the countries of the Former Soviet Union;
- the evolution of the global financial system which gave rise to a wave of financial crises across South East Asia, Latin America, Russia and elsewhere in the mid- to late 1990s;
- the inappropriate response to these crises, which unnecessarily compounded their adverse economic and social effects; and
- WTO "Agreements" which promote commercial interests at the expense of sustainable development and poverty reduction, across an ever-wider arena expanding well beyond trade to include, for example, intellectual property, foreign investment, public services, and potentially government procurement.

"Overlapping political, social, cultural and economic inequalities... are perpetuated by the elite"

- All the factors described above have undermined development and created dependency, making developing countries critically dependent on aid, debt reduction and "preferential" trade arrangements with the developed countries.
- However, the developed country governments have never come close to fulfilling their 1970 promise to provide 0.7% of their national income as aid. The shortfall was nearly $140bn last year, and the cumulative shortfall since 1970 has been more than $4,000bn – double the total income of all low-income countries, which account for nearly two-fifths of the world's population.
- The developed country governments have exploited this dependency both to enforce policy conditionality (on the policies *they* want developing countries to follow) through the IMF and World Bank, and to undermine the negotiating position of developing countries in international fora.
- The imposition of these inappropriate policies has further undermined development in developing countries.
- This in turn reduces their voting shares in the IMF and World Bank, and further weakens their bargaining power in bilateral negotiations with the IMF and World Bank, and in other international fora such as the WTO.

"These patterns of domination persist because economic and social differences are reinforced by the overt and covert use of power... [including] aggressive manipulation or the explicit use of violence."

- The US and the European Union (EU) ruthlessly exploit the dependency of developing countries, and their competition for the limited aid, debt reduction and trade concessions on offer, to pressurise their governments into signing WTO "Agreements" which are not in the interests of their populations, and to break down emerging Southern coalitions which offer the only way of securing some bargaining power in trade negotiations.
- While they systematically pick apart developing country coalitions in the WTO, the major developed countries also coordinate their own agendas, both within the WTO (through the "Quad" group, comprising the US, the EU, Japan and Canada) and more generally (through the G7/G8). This further shifts power from the Southern majority to the Northern minority. Even when G8 members try to use this power constructively, their promises fall far short of what is

needed (as witness the Gleneagles G8 Summit), and their delivery falls far short of what they promise.
- Neither, of course, is "explicit use of violence" by the major powers in the pursuit of their geopolitical objectives by any means unknown.....

"Political, social, cultural and economic inequalities... are... often internalized by the marginalized or oppressed groups, making it difficult for the poor to find their way out of poverty."

- The very limited domestic policy control in the hands of most developing country governments, given their financial dependency and the use of policy conditionality, translates into a lack of real democratic choice, as any government coming into office faces the same *Realpolitik*, and has no real alternative but to follow the path chosen for them by the donors.
- Over time, this has limited the political choice available to the population of countries which remain dependent on aid and/or debt relief (and, indirectly, those heavily dependent on commercial financing), so that acceptance of the prevailing neoliberal model of development becomes internalised in political systems.
- At the same time, the public finances of many countries have been seriously undermined by a combination of forced reductions in taxes on trade, tax competition (for savings and inward investment), debt-servicing, high domestic interest rates, increased import costs due to devaluation, etc. Together with the brain drain (largely a by-product of poor economic performance), this weakens countries' capacity for effective policy-making and implementation. Their own capacity is often substituted by the placement of "advisers" (selected, paid by, and mostly from, developed countries and international institutions) in key positions, further shifting control away from the country itself.

"The inequality of opportunity that arises is wasteful and inimical to sustainable development and poverty reduction."

- The 1980s were dubbed the "lost decade for development" because of the adverse effects of debt, structural adjustment and collapsing commodity prices.
- In the 1990s, the rate of poverty reduction was more than one-third *slower*, as the debt crisis continued unresolved, aid fell still further behind the 0.7% target, commodity prices continued to fall, and structural adjustment policies continued to be imposed.
- In countries other than China, poverty reduction needs to be nearly twice as fast as it was in the 1980s, and nearly three times as fast as it was in the 1990s, if the Millennium Development Goal of halving poverty by the year 2015 is to be achieved.

"Equitable policies are more likely to be successful when leveling the economic playing field is accompanied by similar efforts to level the domestic political playing field and introduce greater fairness in global governance."

We couldn't agree more.... and we'll be watching closely to see how (and whether) the Bank will promote its new-found concern for equity into the fundamental changes this clearly implies for the policies it promotes at the country level.

However, the WDR could hardly be less encouraging on this score. The Epilogue – perhaps added after the appointment of Paul Wolfowitz as Bank President? – flies in the face of the experience of the last 25 years, with the frankly bizarre conclusion that ***"recognizing the importance of equity... implies the need to integrate and extend existing approaches"***. (Sadly this is less surprising than it should be. When any Bank report is published, the question is not what the conclusions will be, but how far the analysis has to be twisted, or how much of the evidence ignored, to reach them.)

We will also watch – still more sceptically – to see whether the overwhelming case the WDR's arguments make for fundamental changes in the system of global economic governance will be translated into practice. After all, what credibility can the Bank hope to have in pursuing an equity agenda in its member countries as long as its President, its decision-making processes and its operations are the very epitome of what it claims it wants to change at the country level.

[1] The IBRD is the branch of the Bank which lends at commercial interest rates, mostly to middle-income countries; IDA is the branch which lends at much lower interest rates, exclusively to low-income countries.

[2] While James Wolfensohn, Paul Wolfowitz's predecessor as President of the Bank, was an Australian citizen when he was nominated by President Clinton, he actually took US citizenship before taking office so that the "tradition" could be preserved.

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