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Forum on Economic Reform

In recent decades the alliance of neoclassical economics and neoliberalism has hijacked the term ?economic reform. By presenting political choices as market necessities, they have subverted public debate about what economic policy changes are possible and are or are not desirable. This venue promotes discussion of economic reform that is not limited to the one ideological point of view.

Can the World Bank Be Fixed?

By David Ellerman* (University of California at Riverside), September 14, 2005

Abstract

If the goal of development assistance is to foster autonomous development, then most aid and "help" is actually unhelpful in the sense of either overriding or undercutting the autonomy of those being "helped." The two principal forms of unhelpful "help" are social engineering and charitable relief. The World Bank is the primary example over the last half century of the failures of social engineering to "engineer" development. Frustration over these failures, particularly in Africa, is now leading the Bank and many other development agencies towards the other form of unhelpful help, namely, long-term charitable relief. The paper outlines some of the reasons for the failure of socially engineered economic, legal, and social reforms both in the developing world and in the post-socialist transition countries. Finally, the argument [given at book length in Ellerman 2005] is summarized in five structural reasons why the World Bank cannot be "fixed."

Introduction

The World Bank (the "Bank") might be taken as the premier development assistance agency. With some exceptions, it represents much of what is wrong with the approach to development assistance in the West over the last half century. I will try to outline an alternative approach to development assistance using the Bank and related agencies (e.g., the IMF or "Fund") as the primary example of how and why development assistance in the customary mode is ineffective and unhelpful.

This is not particularly a Left-Right issue, at least not as conventionally understood. Since World War II, Communism had offered an 'alternative' path to modernization, but from the viewpoint taken here, it was only a more extreme and bone-headed version of the authoritarian and technocratic social engineering mentality exemplified by the World Bank. Our approach is to rethink development assistance from a basic principle of fostering autonomy, not to offer a critique of the Right as if the Left already had a better alternative.

Autonomy-Respecting Assistance

The Helper-Doer Relationship

It is not a new idea that genuine help or assistance will foster autonomy, self-reliance, and self-help at all levels (individuals, organizations, regions, and countries). There is the old Chinese proverb that instead of giving people more fish, it is better to teach them how to fish or better to help them learn how to fish. There is also the old cliché "helping people help themselves" which I used as the title for my recent book on this topic [Ellerman 2005] with the emphasis decidedly on "people helping themselves." Even the World Bank begins its Mission Statement with a dedication to helping people help themselves (www.worldbank.org). The idea cuts across the fields of human endeavor where there is some helping or assistance relationship such as education, psychology, management, organizing, and counseling. Hence it is useful to think in terms of a generic helper-doer relationship where the teacher-learner, therapist-patient, manager-worker, and so forth are special cases each with their own particular characteristics. But most 'help' in these relationships is unhelpful in the sense of not only not fostering autonomy but of fostering subservience, conformity, passivity, and dependence. Hence a theory of autonomy-respecting help also must include a theory of unhelpful 'help'.

The Fundamental Conundrum of Development Assistance

The assumed goal is transformation towards autonomous development on the part of the doers, with the doers helping themselves. The problem is how can the helpers supply help that actually furthers rather than overrides or undercuts the goal of the doers helping themselves. This is actually a paradox: If the helpers are supplying help that is important to the doers, then how can the doers really be helping themselves? Autonomy cannot be externally supplied. And if the doers are to become autonomous, then what is the role of the external helpers? This paradox of supplying help to self-help, assisted self-reliance or assisted autonomy, is the fundamental conundrum of development assistance. Over the years, the debates about aid, assistance and capacity-building keep circling around and around it.

Unhelpful Help

There are many strategies for development assistance that may supply help in some form but actually do not help people help themselves. The forms of help that override or undercut people's capacity to help themselves will be called unhelpful help.2

There are essentially two ways that the helpers will can supplant the doers will to thwart autonomy and self-help:

1) The helper, by social engineering, deliberately tries to impose his will on the doer; or
2) The helper, by benevolent aid, replaces the doers will with her will, perhaps inadvertently.

Override or undercut are shorthand terms for these two conceptually distinct yin-and-yang forms of unhelpful help (which may be combined, as when benevolence hides the desire to control).3

Unhelpful Help #1: Social Engineering

The overriding form of unhelpful help is a type of social engineering. The helpers supply a set of instructions or conditionalities about what the doers should be doing. They also offer motivation to follow this blueprint through various forms of aid to override the doers own motivations. If we use the metaphor of the doers as trying to work their way through a maze, then the helpers as social engineers perceive themselves as helicoptering over the maze, seeing the path to the goal, and supplying instructions (knowledge) along with carrots and sticks (incentives) to override the doers own motivation and push the doers in "the right direction."

Unhelpful Help #2: Benevolent Aid

The second form of unhelpful help occurs when the helper undercuts self-help by inadvertently supplying the motivation for the doer to be in or remain in a condition to receive help. One prominent example of this is long-term charitable relief. The world is awash with disaster situations that call for various forms of short-term charitable relief. The point is not to oppose these operations but to point out how charitable relief operates in the longer term to erode the doers incentives to help themselves and thus creates a dependency relationship. Charity corrupts and long-term charity corrupts long term.

All aid to adults based on the simple condition of needing aid risks displacing the causality. The working assumption is that the condition of needing aid was externally imposed (e.g., a natural disaster); the aid recipient shares no responsibility. But over the course of time, such aid tends to undermine this assumption as the aid becomes a reward for staying in the state of needing aid,4 all of which creates dependency and learned helplessness. Thus relief becomes the unhelpful help that undermines self-help.

Modernization and Development as a Social Engineering Project

Prior to the twentieth century, economic development in Europe and North America was seen as the outcome of a natural process of growth rather than as the result of a massive social engineering project. But when the lagging countries envisioned their "late industrialization," engineering and even military images came to the foreground. After the revolution in a Russia barely emerging from feudalism, real-existing socialism was seen as a socially-engineered short-cut directly to modernity and an industrial society.

In the West, socially engineered visions of development did not take hold until after World War II. The Marshall Plan was seen as an enormously successful "project" for the reconstruction of western Europe.5 With the liberation of the many former European colonies in the Third World and the advent of the Cold War, the West quickly realized that it needed to offer a non-communist path to rapid modernization and industrialization. With the newly created World Bank and International Monetary Fund (IMF) as the lead organizations and with the Marshall Plan as the mental model, economic development was reconceptualized as a social engineering megaproject rather than as an evolutionary socio-economic-historical process. The Soviet Bloc countries were not members of the World Bank or IMF (unlike the United Nations) in spite of the adjectives "World" and "International" so the race was on between the West and Soviet Bloc to offer the best development model to the "Third World."

With the dissolution of the Soviet Bloc and the Soviet Union in the early 1990s, the western development assistance institutions triumphed as offering the One Best Way. And the Second World, the formerly socialist countries, became new clients of the international development agencies. International development is now a huge "industry" in itself. The World Bank and the IMF are joined by development organizations associated with the UN (e.g., the UN Development Program and the UN Industrial Development Organization), by the World Trade Organization, by regional development banks in Africa, East Europe, Latin America, and Asia, by bilateral foreign aid agencies (such as the US Agency for International Development), by a panoply of operating foundations working on development issues (e.g., the Ford, Rockefeller, Carnegie, and Soros foundations), and finally by swarms of non-governmental organizations (NGOs) from both the North (developed countries) and South (developing countries).

Over the decades, the major development assistance institutions have run through a number of development foci (or fads). Initially, the focus was on provision of physical infrastructure: roads, seaports, airports, dams, and power plants. After much expensive disappointment, the emphasis shifted to education (formation of "human capital"), health, and the satisfaction of basic necessities.

These programs represented a swing of the pendulum away from the engineering-oriented infrastructure programs towards the other form of unhelpful help, charitable programs. But as these charity-oriented programs yielded neither the desired developmental results nor loan repayments, the pendulum swung back to social engineering in the form of structural adjustment programs. Here the social engineering came more from economics than civil engineering, and the slogan was "Get the prices right." But since markets require a reasonably well-functioning set of institutions, the focus on prices and structural adjustment soon broadened to governance issues including corruption, business climate, and a legal system to protect property rights and to adjudicate and enforce contracts. Hence the current slogan is "Get the institutions right" as if institutions could be socially engineered as large development projects.

Today the pendulum in the World Bank and many of the other international and bilateral agencies is starting to swing back in the direction of charitable disaster relief. Development, where it has occurred (e.g., East Asia), has been a relatively incremental process rather independent of the social engineering projects and programs offered by the Bank and Fund. The major assistance bureaucracies such as the Bank need to reinvent reasons for their continued existence. The crisis of AIDS and other diseases such as malaria threaten to undo many of the meager developmental accomplishments of the past. It is likened to a "silent tsunami" that calls for the development assistance agencies to shift into disaster relief mode to meet the crisis.

The other major factor today came forcefully into the foreground with the events of September 11, 2001. The War on Terror may eventually replace the Cold War in the rationalization of the major agencies. The ascent of Paul Wolfowitz to the Presidency of the World Bank may be a case in point. The role of the major agencies is twofold. There is the "camp-following" role of post-conflict "nation-building" in Afghanistan and Iraq that builds upon earlier post-conflict experience in the Balkans and East Timor. And there is the longer term "draining the swamp" role of fighting the poverty and desperation that supposedly bred terrorism.6

After nearly six decades of attempts to socially engineer development, the various efforts cannot be judged a success.7 Where development has been most successful in the East Asian countries, the standard model (e.g., "Washington Consensus") has not been followed and outside observers do not credit the development agencies with a key role [e.g., Wade 1990]. Where the international agencies have had the freest hand to try to impose solutions, e.g., in Africa and Latin America, there has been the least success [e.g., Van de Walle 2001 on Africa]. This was the conclusion of even the World Bank's own respected researcher William Easterly [2001].8

The Challenge of the Transition: Shock Therapy as Ersatz Social Engineering

The transition from communism to a private property market economy presented a unique challenge to the major development assistance agencies. It was a new challenge since prior history did not provide examples of this systemic transition. The transition is a wonderful case study of the effects of 'enlightened' social engineering for two reasons. One reason is that the transition and the role of the major development agencies in it took place largely in the decade of the 1990s so that we have a little perspective of history. The other reason is that there was a remarkable natural experiment in the transition; the two major countries, Russia and China, each used opposite philosophies. Russia chose the social engineering model of institutional shock therapy offered by the international development agencies and the most prominent academic economists as advisors. China chose pragmatism after "learning the hard way" the lessons from using Bolshevik methods to try to engineer social change (e.g., the Great Leap Forward and the Cultural Revolution).

The difference in results could hardly be more striking. Since the Chinese reforms started with government support in the early 1980s, China has had around 8 percent per capita annual growth [McMillan 2002, 204], perhaps the largest growth episode in history.

Russia using the shock therapy strategy went the other way. In the first year of shock therapy (1992), production fell by 19 percent with a further 12 percent and 15 percent in the ensuing two years [McMillan 2002, 202]. In all, the country bottomed out at about a 50 percent drop in GDP. Experts can argue about the interpretation of the economic statistics, but the demographic trends tell an even more worrisome story. The population has actually declined over the 1990s in such a precipitous manner now for every 100 babies born, 170 Russians die that the government projects a 30 to 40 percent drop by 2050 [Feshbach 2003a, 2003b]. The causality behind these trends is very hard to disentangle which is why the side-by-side comparison with China is so revealing.

Since the systemic transition from plan to market had never happened before in history, it surely called out for a non-dogmatic approach of trial-and-error and experimentalism, i.e., for pragmatism. Two earlier attempts to socially engineer revolutionary changes in social, political, and legal institutions the French Revolution and the Russian Revolution had led to disastrous results. The names "Jacobins" and "Bolsheviks" entered history as labels to describe those who eschew pragmatism to try to force historical change.

One of the most influential critiques of the Jacobin methods used in the French Revolution was Edmund Burke's Reflections on the French Revolution: In a letter intended to have been sent to a gentleman in Paris [1937 (orig. 1790)]. At the beginning of the decade of the transition (1990s), Ralf Dahrendorf (a political sociologist and head of the London School of Economics), wrote a book, Reflections on the Revolution in Europe: In a letter intended to have been sent to a gentleman in Warsaw [1990], updating Burke's message for the coming post-socialist transition. Dahrendorf argued for the transition "to work by trial and error within institutions" [1990, 41; quoted in: Sachs 1993, 4]. Neoclassical economics has become the primary intellectual framework of today's social engineering. In the early debates about the transition, a prominent economist and even more gifted self-publicist, Jeffrey Sachs (then of Harvard and now at Columbia University), argued that he and other economists already had the answers. After quoting Dahrendorf, Sachs argued to the contrary in favor of an economicsinspired crash program of institutional shock therapy. "If instead the philosophy were one of open experimentation, I doubt that the transformation would be possible at all, at least without costly and dangerous wrong turns." [Sachs 1993, 5]

The French Revolution was not the only relevant historical example. John Maynard Keynes described the Russian Revolution and its aftermath in terms that are surprisingly apt to describe Russia in the 1990s.

> We have a fearful example in Russia today of the evils of insane and unnecessary haste. The sacrifices and losses of transition will be vastly greater if the pace is forced. For it is of the nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited. [Keynes 1933, 245]

Instead of taking these lessons to heart, the Russian reformers of the 1990s became "market bolsheviks" [Reddaway and Glinski 2001] in their attempt to use the "window of opportunity" to make the opposite transition from plan to market.

There are a number of factors that combine to yield this view of engineered revolutionary change. The question is not whether or not to make systemic change. The question is: given a commitment to basic change to get to the "other side of an institutional chasm" how best to get there. A pragmatic approach would emphasize incremental step-by-step change starting from where people are. Sachs often used the metaphor "you can't jump over a chasm in two leaps" but even rather radical pragmatists would argue that people "need a bridge to cross from their own experience to a new way." [Alinsky 1971, xxi].

Another factor leading to social engineering schemes is the use of simplified abstract models and a lack of experience in the give and take of practical political experience. James Scott's book [1998] argues persuasively that states use simplified pictures of static reality to administer their affairs (e.g., to collect taxes and to staff the army) but that these simplified pictures lead to disaster when they are the basis for large-scale social engineering schemes to change societies. Academic economists and global development bureaucrats have little contact with local realities and thus they tend to be driven by such simplified cartoon models. Exiles who have not participated in the give and take of politics in a country for years if not decades also tend to have cartoon models. It is the combination of power and highly simplified models of complex social realities that is particularly lethal. In our case, the power of the international agencies together with the bureaucratic/academic cartoon models contributed to the debacles of shock therapy in the FSU.

There is a side-theme that might be explored. Youthful prodigies are typically in activities based on abstract symbol manipulation (e.g., mathematics, music, and chess) where subtle and often tacit background knowledge obtained from years of human experience is not so relevant (see Scott's discussion of pragmatic knowledge or "metis"). As economic theory has become more mathematical, there is now the phenomenon of wunderkind professors in economics (e.g., Jeffrey Sachs, Larry Summers, and Andrei Shleifer were all prodigy-professors at Harvard) who are then unleashed with the compounded arrogance of youth, academic credentials, and elite associations into the real world as ersatz "economic reform experts." Paul Starobin [1999] contrasts the wunderkinder of "Big Bangery" with the mature pragmatists behind the Marshall Plan, and notes the striking difference in results. When wunderkinder cast long shadows in the development agencies (e.g., Summers as

Chief Economist in the Bank, Shleifer as manager for USAID's big project in Russia, and now Sachs as a top 'development' advisor to the UN), then it must be late in the day for those agencies.

"Cargo Cult" Economic Reforms: Where is the Road to Cargo?

There is a certain self-reinforcing vicious circle that leads the Bank and other agencies to try to "install" inappropriate institutions in developing and transitional post-socialist countries. Let us begin with the supply side of this unhappy transaction.

People from advanced developed countries are, in effect, "born on third base and think they hit a triple."9 Such "natural-born development experts" may be graciously disposed to teach developing countries how to "hit a triple." The developing country should redraft its laws to describe the institutions seen from the vantage-point of "third base" [e.g., "like in America"] and then after passing these new laws, everyone should wake up next morning as if they too were born on third base.

Societies, however, tend to operate on the basis of their de facto institutions, norms, and social habits, not their formal laws and particularly not the formal laws "pulled out of the air" with little relation to past experience. When such a gap between formal and de facto institutions is introduced, then the bulk of the population can rarely "jump over the chasm" to suddenly start living according to the new formal laws so the rule of law is weakened. Semi-legal ("gray") and illegal ("black") activities become more prominent as the connection between legal and actual behavior is strained to and beyond the breaking point. The advice from the natural-born development experts thus becomes more part of the problem than part of the solution. More relevant institutional information could be provided by people who were only on first or second base since they might actually know how to hit a single or a double.

Now consider the demand side the demand for impossible "overnight" jumps to institutions copied from technologically advanced developed countries. The people and the politicians of the developing and the transition economies are constantly bombarded by the mass media with images of life in the "First World." They want to get there "tomorrow" (if not "yesterday"). Consultants and academics from elite universities with no real development experience badger the government officials to have the political courage and will to undertake a shock-therapy-style change in institutions, to jump over the chasm in one leap (i.e., jump directly to third base) as if such institutional change were actually possible. Those locals who caution against radical leaps are dismissed as only trying to protect their privileges and "rents" from the past regime. "How dare you think you know better than professors from Harvard!"10 The idea is to "escape the past," not to study the past to better develop incremental change strategies. If the scientific experts from the First World give this advice, how can the benighted officials from the Third World or the post-socialist countries resist? All people have to do when they wake up the next morning is to start behaving according to the new laws drafted by the experts!

For instance in a southeast European post-socialist country that had been particularly isolated in the past, government officials wanted to jump to modern corporations "like in Europe." This was an example of an "iceberg" institutional reform; the "above the water-line" laws could be quickly changed but the problem was the "below the water-line" long-term changes in behavior.11 They located a European foundation that was willing to fund an "adaptation" of the corporate laws of a west European country. The new draft laws were quickly passed by the Parliament so that the government officials and legislators could brag that they now had

"European corporate statutes." All they needed now was a few lawyers, a few judges, a few accountants, a few regulators, a few business people, and a few decades of institution-building experience so that the new statutes could actually be used. Any attempt to get the country to adopt laws similar to those in neighboring countries that had incrementally evolved towards a market economy for several decades was angrily rejected. "Why do you try to get us to use these second-best or third-best laws when we can adopt the best European statutes?" Surely the natural-born development experts from the First World want to provide the best laws for their clients.

Thus the government officials demand that they do not want some second-best model; they want the "very best" for their people like in the advanced countries. The third-basers in the international aid bureaucracies then can reap the seeds they have sown by "listening to the clients" and "responding to the clients' desires" by trying to set up "public joint stock companies" in Albania, a "stock market" in Mongolia, "defined contribution pension plans" in Kazakhstan, and "modern self-enforcing corporate laws" in Russia.12 Thus the circle is completed; supply responds to demand in a self-reinforcing vicious circle to waste untold aid resources on the attempted instant gratification of a non-evolutionary "Great Leap Forward" to First World institutions.13

The failed attempts at utopian social engineering might be usefully viewed from an anthropological perspective. Many of the First World institutions such as "The Stock Market" have a certain totemic or 'religious' significance. The Wall Street mentality found in the post-socialist world is reminiscent of the cargo cults that sprung up in the South Pacific after World War II.14 During the war, many of the glories of civilization were brought to the people in the southern Pacific by "great birds from Heaven" that landed at the new airbases and refueling stations in the region. After the war, the great birds flew back to Heaven. The people started "cargo cults" to build mock runways and wooden airplanes in an attempt to coax the great birds full of cargo to return from Heaven.

Post-communist countries, with hardly a banking system worthy of the name, nonetheless opened up Hollywood storefront "stock exchanges" which were kickstarted by the listing of shares in almost all companies in a voucher privatization program. Government officials in East Europe, the former Soviet Union, and even Mongolia proudly showed the mock stock exchanges, complete with computers screens and "Big Boards," to western delegations of Bank, Fund, and USAID officials (with enthusiastic coverage from the western business press) in the hope that finally the glories of a private enterprise economy will descend upon them from Heaven. An earlier generation of misguided development efforts left Africa dotted with silent "white elephant" factories, and the present generation of revolutionary reforms in the post-socialist world left the region dotted with dysfunctional "cargo cult" institutions the foremost among them being the largely totemic stock markets.

Summing Up

After book-length argumentation [Ellerman 2005] that is only hinted at here, I concluded that the World Bank could not be "fixed." Its activities and policies are the result of at least five powerful structural imperatives that cannot be changed, say, by more enlightened or well-intended leadership.

Structural Problem #1: Monopolistic Power

If in fact development were the sort of thing that could be "socially engineered" then there would be a good case to have a very powerful global development agency. But wherever the desired outcomes require sustainable changes in the actions and beliefs of the doers unlike the "vaccination of children" or "mosquito nets" model of assistance15 then the engineering approach subtly fails to achieve thorough-going and long-lasting results. The externally-sourced pressures of the direct engineering approach can only create the external show of results that provides a type of short-term pseudo-verification for the aid bureaucracies. Genuine internal change in the doers requires internally-sourced motivation and active learning by the doers all of which requires a fundamentally different autonomy-respecting approach on the part of the helpers.

One problem lies in the imperatives of the organizations themselves. Individuals in large or small aid organizations need to "move money" and "show results" for their bosses, sponsors, or donors. Hence the would-be helpers will try to take over, control, and own the interaction with the doers in order to "deliver" the desired "results." The more powerful the helping organization, the more damaging is this organizational drive.

On the whole, the conundrum of actually helping people help themselves is so basic and subtle that trying to get a large development agency to operate on that basis is akin to trying to get an elephant to dance a ballet. Regardless of the rhetoric and good intentions, it is not going to happen.

The World Bank is now an economists' bank, not a civil-engineers' bank. One might think that all the economists in positions of power in the Bank would recall their catechisms about the problems of monopoly. But it would seem that they are more attracted to the notion of "global" than they are repelled by the notion of "monopoly." All the rhetoric about a "global agency" having a "global role" to gather "global knowledge" to solve "global problems" seems to be so much "globaloney" to justify the monopolistic world-wide role of the World Bank.

Structural Problem #2: Affiliation with United States' Policies and Interests

All this would be true of the World Bank if it were located in a neutral city like Geneva or, if one can imagine it, in the developing world, e.g., in Africa. But in fact, the World Bank and the IMF are located a few blocks from the White House in Washington. Most of the communist countries during the Cold War period, like North Korea or Cuba today, were not members of the Bretton Woods institutions so the International Bank for Reconstruction and Development and the International Monetary Fund were not "international" in the sense of the United Nations. Instead they were part of the "West" led by the United States.

Today after the collapse of the Communist Bloc, the United States has emerged as a relatively unchallenged global power, and the Bank and IMF have kept their role as team players headquartered a few blocks from the White House. By arrangement, the President of the Bank is always an American national selected by the US President while the Fund has always been led by a European.16 Both institutions are thoroughly imbued with an American perspective as expressed in the variants of the "Washington Consensus" (e.g., Stiglitz 2002) and in the cheerleading for increased American hegemony under the label of "globalization." Thus on many issues, the U.S. Government does not need to exercise direct control. But on the major issues of the day, the Bank and Fund twist and turn according to the twists and turns of American foreign policy.17 This would be the same even if the president of the Bank was not Paul Wolfowitz.

Structural Problem #3: Money is Not the Key to Development Assistance

The third problem is that the Bank is a bank. The idea that money is key to development goes back to the original idea of the Bank as financing civil engineering projects, a role now largely taken over by the private sector. When the Bank then turned to policy-based lending and institutional development projects, it of course did not cease to function as a bank. While capital may indeed have been the missing ingredient necessary to build a dam or power station, it is by no means clear that money can buy real changes in policies or can build institutions. Indeed, the availability of large amounts of money to developing countries overrides their other motivations and redirects their attention to playing whatever game is necessary to get the money. Money is the magnet that sets all compasses wrong; it is the root of much unhelpful help. Decades of experience in Africa and elsewhere have made it crystal clear that money is not the key missing ingredient in institutional development (as it might be in building an airport). The implicit assumption that a development agency should function as a money-moving machine has little to support it and much evidence against it. The recent efforts by the "Development Set" (from political leaders and academic 'development' experts to pop stars) to address Africa's development problems by pumping in huge additional amounts of money are pathetically misdirected. The Bank has already "been there and done that."

Structural Problem #4: Working Through Governments that are Part of the Problem

The fourth structural problem is that in the Bank's helper-doer relationships, the doer is the government of the developing country. Needless to say, the governments of developing countries are made up more of the rich than the poor and more of the powerful than the powerless.18 Yet the mission of the Bank is to enrich the impoverished and to empower the disempowered. Putting the mission together with the modus vivendi yields the unlikely strategy of working through the rich and powerful to help the poor and disempowered people of a country. But making any fundamental changes in the economic, political, and social relationships could not be further from the intentions of the rich and powerful elites in these countries.19 Since these elites are more a part of the problem than a part of the solution, it should be no surprise that this strategy has shown meager results. And the current calls to pour still more aid money through the usual channels do not address the problem. Loan and aid monies to the governmental elites will be used mostly for their own benefit with at best some trickle-down to the poor feed enough oats to the horse and some will pass through to the road for the sparrows. Hence the effort of today's "development leaders" to feed even more oats to the horses all because of their heart-felt concern for the sparrows.

Structural Problem #5: Tries to Control Bad Clients Rather Than Exit Relationship

The fifth structural problem is the organization of the Bank as helper in its helper-doer relationship. The Bank is essentially a financial cooperative of its member countries, the developed "Part I" countries that participate mightily in Bank governance but do not borrow and the developing "Part II" countries that can borrow from the Bank. The problem with the borrowers being members is the way the voice-exit dynamics plays out. A commercial bank does not have to make loans to any specific potential clients; it has no fixed set of "members." While a commercial bank might try to work with a potential client to improve its borrowing capacity, there are limits on that relationship. When the potential borrowers shows little inclination to reform or restructuring, then the commercial bank can exit the relationship.

But the World Bank is locked into a relationship with the worst borrowing countries in the world. As these countries are in the most need of genuine help, the Bank is constantly torn between the desire to help the poorest of the poor countries and to walk away from oppressive and kleptocratic governments of those countries. While the Bank can in some cases reduce its involvement to a legal minimum, it cannot just walk away like a commercial bank. Hence the exit-voice dynamic works in the other direction of the Bank trying to exercise more voice in the country in effect to try to run the country in a state of tutelage (no doubt together with the IMF). If the experience in sub-Sahara Africa is any guide, the Bank's tutelage is not very effective. In many of the poorest countries, the lack of state capacity along with the AIDS crisis and the "no exit" condition on the Bank have transformed the Bank's aid program from social engineering for development towards the model of long-term charitable relief (the second form of unhelpful help).

Indeed, if I was to make a "cynical prediction" about the future trajectory of the Bank, then the prediction is that the Bank will be both pushed and pulled to become a hospital for the "basket cases" of development assistance (e.g., post-conflict countries or "low income countries under stress") particularly in Africa. Then the Bank will combine the first form of unhelpful help (social engineering) with the second form of unhelpful help (long-term charitable relief). It is well-nigh structurally impossible for the World Bank to actually help people to help themselves. Fifty-plus years is more than enough.

Notes

* David Ellerman recently retired after ten years in the World Bank where for three years he was economic advisor and speech-writer for Joseph Stiglitz during Stiglitz's tumultuous tenure as the Bank's Chief Economist. For more information, see: http://www.ellerman.org.

1. The phrase is from Uphoff, Esman and Krishna (1998). See also Chapter 8 of Fisher (1993) on the central paradox of social development.

2. For related notions, see Gronemeyer (1992) on help (that) does not help and Ivan Illich's notion of counterproductivity (1978).

3. Albert Memmi found essentially the same two forms of an unhelpful helper-doer relationship. In the social engineering case, the "helper" is the dominator or colonizer while the "doer" is the subjugated one or the colonized (Memmi 1967). In the case of "oppressive benevolence" (to use John Dewey's phrase), the "helper" is the provider and the "doer" is the dependent (Memmi 1984).

4. See Ellwood (1988) on the helping conundrums.

5. Nota bene, it was the "reconstruction" of an already developed Europe, not the development of Europe. Thus the application of the Marshall Plan idea to the Third World was misconceived from the beginning.

6. For the first post-9/11 All Bank Conference on Development Economics (ABCDE) conference in 2002, a distinguished Princeton economist, Alan Krueger, was commissioned to give an empirical paper on the roots of terrorism. The Bank had a clear Official View that terrorism was rooted in poverty so that some of the huge funds for the war on terrorism could be channeled to the Bank. When Krueger's paper arrived so that it could be printed for distribution at the conference, its conclusions were quite the opposite. Little connection between

terrorism and poverty or education was found. Instead evidence pointed to "political conditions and long-standing feelings of indignity and frustration that have little to do with economics." (Krueger and Maleckov 2003, 119) The Board representatives from the Gulf States were particularly upset at the mention of political conditions and at the fact that the Bank would commission a study of terrorism in the first place. They managed to get the apparatchiks in the Development Economics Vice-Presidency (DEC) in the Bank to completely suppress the paper at the conference and to 'air-brush' it out the conference program (seehttp://econ.worldbank.org/abcde/) and publications. It was later published in the Journal of Economic Perspectives (Krueger and Maleckov 2003) with no mention of the incident or of the Bank.

7. One consequence of consistent failure is the watering down of the notion of evaluation to the ultimate low-hurdle form, a so-called "impact evaluation." The most basic notion of valuation in economics is the notion of opportunity cost: the cost of using resources of plan A is the value foregone by not taking the best alternative plan B using the same resources. Hence the heart of the notion of "evaluation" is to compare the results of the plan A that was undertaken with the best alternative plan B using roughly the same resources. But in the face of persistent failure over decades, the project managers in the Bank and other major agencies have come to favor "impact evaluations" that compare the results of the undertaken plan A to the "counterfactual" of spending no resources at all. Thus if a project manager can spend hundreds of thousands or millions of dollars and not do actual harm (with some positive results) compared to what would have happened if nothing was spent, then the project gets a positive (impact) evaluation! It is as if a company would spend $1,000 or $10,000 of variable costs on each unit of a product A that could sell for at most $100. An "impact evaluation" was then done to "see what works and what doesn't" to generate positive revenue. It was found that product A indeed generates $100 of revenue while the counterfactual of no product (and no costs) generates no revenue, so definitely product A "works" and gets a positive evaluation. It is not surprising that project managers love this ultimate low-hurdle form of "evaluation" and that the World Bank is now engaged in promoting "impact evaluations" as the "scientific" way to "see what works" in development assistance.

8. Easterly was charged with an "ethical" violation on a technicality (failing to get prior approval from the Bank's public relations department before publishing a personal op-ed piece about the book's conclusions) and was forced out of his tenured position in the World Bank shortly thereafter. He is now a university professor.

9. The baseball metaphor was used by the Texan populist and political commentator Jim Hightower to describe the first President George Bush.

10. See Wedel [1998] and Ellerman [2001, 2003] for more on the role of the Harvard wunderkinder in Eastern Europe and in Yeltsin's Russia. Jeffrey Sachs was the first young Harvard economics professor to gain notoriety in this regard, but he was soon eclipsed by his colleagues Lawrence Summers (who during the early 1990s become Chief Economist of the World Bank and later Secretary of the Treasury in the U.S. government) and, his protégé, Andrei Shleifer (born in Russia but emigrated to America as a teenager).

11.The difference was noted by the British economic historian, Richard Tawney, after visiting China in 1930." To lift the load of the past, China required, not merely new technical devices and new political forms, but new conceptions of law, administration and political obligations, and new standards of conduct in governments, administrators, and the society which produced them. The former could be, and were, borrowed. The latter had to be grown." [Tawney 1966 (orig. 1932), 166]

12. See "Corporate Law from Scratch" [Black, Kraakman, and Hay 1996] for a remarkable example of trying to etch first-best laws as if on a blank slate in Russia. Even more remarkable is that after much bitter experience with corporate governance in Russia, Black and Kraakman reversed themselves [Black et al. 2000] and argued for a more pragmatic "staged" approach to legal and institutional development. The third author of "Corporate Law from Scratch", Jonathan Hay, was a legal specialist from the Harvard Law School who worked with Shleiferin Russia on USAID contracts through Harvard. Shleifer and Hay were later indicted by the US Department of Justice and convicted for corrupt practices in that work.

13. Again Tawney put it well. "What makes modern industry is ultimately not the machine, but the brains which use it, and the institutional framework which enables it to be used. It is a social product, which owes as much to the jurist as to the inventor. To regard it as an ingenious contrivance, like a mechanical toy, or the gilded clocks in the museum at Peiping made by London jewelers for the amusement of Chinese emperors, which a country can import to suit its fancy, irrespective of the character of the environment in which the new technique is to function, is naïve to the point of absurdity. It is like supposing that, in order to acclimatize Chinese script in the West, it would be sufficient to introduce Chinese brushes and ink." [Tawney 1966 (orig. 1932), 130]

14. See the chapter on "Cargo Cult Science" in Feynman 1985. See the Foreword by J. K. McCarthy in Lawrence 1979 for the cargo cult formulation of the question of development assistance: "Where is the road that leads to cargo?"

15. These are code phrases for the rather common type of development thinking (Jeffrey Sachs is a foremost current representative) that implicitly models development assistance on a physical effect regardless of the autonomous efforts of the doers. The predominant image is that the helpers parachute into, say, Africa and "vaccinate children." The beneficial effect is physical regardless of the voluntary (never mind autonomous) efforts of the apparently helpless and child-like beneficiaries themselves. The helpers can then fly out with a warm glow of moral satisfaction for having done some good. "Providing mosquito nets" is the most recent cartoon image of development assistance.

16. Hence the highest ranking American in the Fund is typically the number two position of Deputy Managing Director. When Stanley Fischer, the Deputy Managing Director of the IMF during the contentious late 1990s and a previous Chief Economist for the World Bank, retired from the IMF, the former MIT professor immediately took the yellow-brick road from 19th Street (IMF headquarters) to Wall Street to become a vice-chairman of Citigroup. That was certainly congruent with the hypothesis that the IMF sees the world through a Wall Street lens.

17. See Blustein 2001 and Stiglitz 2002 on how the Bank and Fund functioned as a junior partner in US foreign policy in Russia and in the East Asian crisis during the 1990s.

18. And the staff members in the Bank and Fund from developing countries are drawn from the middle and upper classes.

19. Charitable programs focused on individuals or families (e.g., microfinance loans to individuals) are fine but the elites would not support help to the poor and disenfranchised to organize themselves socially and politically to collectively act on their own behalf.

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