The World Bank and the Washington Consensus: how 'basic needs' became Structural Adjustment

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Introduction

The literature on the governance of the post-Bretton Woods order conventionally frames World Bank policy in terms of its relationship to the Washington Consensus. Notwithstanding the technical evolution of practices of governance in the last three decades, the persistence of this framing reflects the perceived persistence of neoliberal ideology as a guide to the institution’s practices – first extended into the realm of development via the Bank’s highly conditional structural adjustment policies. The core objective of these conditions was to reduce the role of the state – controlling inflation, promoting the free international movement of capital, de-regulating financial services and liberalising the international trade regime. As a result, structural adjustment lending has become synonymous with the term ‘Washington Consensus’, and by extension, with ‘neoliberalism’.

This is seen as a major shift away from the Bank’s policy in the 1970s. According to conventional wisdom, Robert McNamara oversaw the Bank’s most progressive moment – the orientation of the lending programme towards rural farmers and ‘basic needs’ investment in education and social spending.¹ This is often seen as the culmination of the era of Bretton Woods’ association of Keynesian macro-management and state intervention with ‘development’.² Yet by 1981, the Bank had made a significant step away from these sophisticated applications of modernisation theory. The Bank’s 1981 report, *Accelerated Development in Sub-Saharan Africa* (widely known as ‘the Berg Report’) decried state intervention and protectionism, and called for significant retrenchment in favour of the private sector.³

The drastic nature of the shift from the ideas of ‘basic needs’ to the Berg Report seemed to many to go against the Bank’s inclinations. To explain it, scholarship on the Bank frequently turns to

the power of the US state. The turn to neoliberal governance is understood as the outcome of the US’ response to the dual crisis of the Bretton Woods order and the Keynesian economic paradigm which underpinned it. The neoclassical economic paradigm was waiting ‘in the wings’ and attained hegemony as an intellectual and political paradigm simultaneously. It is often taken for granted that in this radical epochal break the strategies and tools of governance were made as new as the neoliberal vision of the good society was old – to fit the US’ hegemonic strategy.

This is somewhat surprising, as it is well-documented that the practices which came to be known as ‘structural adjustment’ were discussed, experimented with, and deployed for some time before they were enshrined in the Washington Consensus through the Baker Plan. For example, Toye et al observed in 1991 that conditional programme lending was deployed on a number of occasions in various forms between 1973 and 1975⁴, and Patrick Sharma has recently illustrated that the Bank’s management was aware that the traditional project-based mode of lending was ill-suited to the political economic context of the 1970s long before the crisis of 1979-82.⁵

In itself, therefore, this is not a controversial observation. Yet it serves to illustrate the simple point that accounts of governance which begin with the ideology and power of the US often fail to tell us much about how governance is actually executed – by what agency, for what reason, and within what parameters? Across the spectrum of epistemology, such accounts make significant assumptions about the capacity of the Bank to straightforwardly enact US strategies and underestimate the agency of management in the creation of the tools of neoliberal governance which Sharma and Toye et al point towards.

In response to this, I make two claims in this paper. Firstly, that the development of the technologies of governance most commonly associated with neoliberalism and the management of the 1982 debt crisis had a much longer history in the Bank as an institution than is commonly assumed. Their origin is to be found in the ‘basic needs’ approach of the 1970s, precisely that moment which is often considered the most progressive in the institution’s history. Secondly, the agency of Bank management was critical in the development of the capacities upon which the shift to neoliberal governance would be predicated – within parameters which were defined most significantly by the imperative of commercial creditworthiness bequeathed to the Bank by its operations in private capital markets, rather than the political agendas of the US.

In the first section, I present a literature review in which I explore the way in which the persistence of the Washington Consensus as a frame for the analysis of the neoliberal regime of

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governance cuts across contemporary Liberal, Neo-Gramscian, and Constructivist political economy. Underpinning this common functionalist narrative are two apparently divergent conceptions of the Bank. I turn first to what I term the ‘Wall Street – Treasury nexus’, in which the Bank is an essentially passive recipient of American objectives. Secondly, I turn to the ‘relative autonomy’ tradition, which proffers a narrative of change which is rooted in the agency of the management and staff of the institution mediated by epistemic change in the elite academic community. While both traditions make important contributions, each conceptualises the transition to neoliberalism as the result of the power of the American state, expressed in the ideational consonance of Bank management and state managers, or in the domination of the Bank by neoliberals opportunistically manipulating the crisis of the Bretton Woods system. This leads them to miss the key role played by Bank management in the creation of the tools of neoliberal governance.

In the second section, in order to begin to provide a satisfactory account of the origins of structural adjustment, I develop a longer historical view beginning with the Bank’s efforts to meet the challenges of the later 1960s: the Johnson administration’s battle to reduce the US balance-of-payments deficit and contain newly-mobile American capital stymied the IDA replenishment negotiations, while the easy availability of liquidity in Eurodollar markets allowed the Bank’s most important clients to bypass the conditions attached to its loans. These dynamics had a simple significance for the Bank: it was highly liquid, but the imperative of remaining creditworthy meant that it was struggling to lend.

In the third section, I explore how McNamara obtained the vast increase in funding required to return the Bank to its central role in the international order. Overcoming this crisis of relevance to its borrowers required the Bank to develop new capacities of governance through which it could increase lending while enforcing financial discipline. This entailed two key moves. First, to make the ‘basic needs’ agenda legible to financiers, McNamara deployed the cutting edge technology of management which he had encountered at the Pentagon in his work with the RAND corporation. Simultaneously, the Bank itself would be restructured on the advice of elite management consultants McKinsey, and run on the basis of a highly centralised hierarchical system of control predicated upon the quantitative analysis of budgets and the productivity of staff as well as the loans they made. Second, the Bank had to alter how it lent: the project loan could not deliver the massive increase in disbursement envisaged by the ‘basic needs’ concept. Only the programme loan could achieve the policy leverage the Bank needed to satisfy its own creditors of the soundness of their investments. The security demanded by investors bound the performance of the Bank to the performance of its borrowers. Basic needs and the associated employment-oriented development
concept demanded macroeconomic programming; and broad based macroeconomic conditionality in order to satisfy the Bank’s institutional imperative of commercial creditworthiness.

In sum, the roots of structural adjustment loans lie in the ‘basic needs’ agenda itself. This was not a radical break, a transformation following from US power. Rather, it stemmed from management agency in attempting to overcome the limits to the Bank’s ability to act posed by its social anchoring in private finance. The capacity to implement neoliberal governance was not a direct offshoot of the requirements of the market; it was an institutional development which reflected the imperatives and managerial agency of the Bank. Appropriated through the Baker Plan, this saw the Bank Group of the 1980s step back into the role of the IBRD of the 1940s.

1: A paradigm with nine lives?

The tendency to view the Bank’s role in neoliberal governance through the prism of the Washington consensus is the most striking feature of writing about the institution’s recent history. This tends to lead to the conflation of structural adjustment lending and the Washington Consensus in a way which is actually quite problematic. Two distinct phenomena - an ex-post attempt during the 1990s to encapsulate the zeitgeist of 1980s neoliberal political economy, and Republican foreign economic policy responses to the crisis of the Bretton Woods system – have been uncomfortably elided. Two problems follow from the analytical bundling of structural adjustment with the Washington Consensus.

Firstly, it privileges the imperatives which mobilised the Washington Consensus – those of the US state – and obscures those which gave rise to the development of the practice of conditional programme lending in the 1970s, by assuming they are the same.

Secondly, this implies a neat elision of neoliberal political economy and the agenda of the US state in spite of the tenuous basis of the policies the ‘Washington Consensus’ describes in neoliberal economic theory. This has been acknowledged as a political rather than academic paradigm shift yet this insight is not followed through: structural adjustment lending is depicted as the *sine qua non* of neoliberalism.

As the neoliberal paradigm has not been dislodged by the financial crisis of 2008, critical accounts of the Bank’s role in the governance of the contemporary order persistently return to the Washington Consensus as the frame in which the Bank is situated.

This gives rise to a number of problems observed by Sarah Babb in her recent contribution to the literature on the role of the Bank in the Washington Consensus. First, she notes that neither of the political and economic theories most celebrated contemporary to the transition to neoliberal
governance – rational expectations theory and public choice theory - had much to say on the subject of the usefulness of international organisations in the promotion of policy reforms. Second, she notes that the term ‘Washington Consensus’ was deployed as an ex-post attempt to understand the practices of conditionality in the international financial institutions.6

The most important contribution Babb offers is to shift the focus of our understanding of the development of the Washington Consensus to the Bank as the most salient agency in the operationalisation of the paradigm. The practice of structural adjustment as a core disciplinary element of the post-Bretton Woods international order is more conventionally associated with the IMF. This, she argues, is problematic: the Bank had experience of the application of conditionalities to a much broader range of areas than the fiscal and monetary reform demanded than the IMF. This made it the perfect vehicle for Baker’s objective of enforcing financial discipline to safeguard the international banking system.7

Nevertheless, in focusing solely on the Baker plan’s intention to manage the crisis by using conditional loans she does not move beyond the tropes of the contemporary critical literature on the Bank. The Bank is still the vehicle for the US government’s hegemonic project – the transformation of neoliberal political economy into a functional transnational policy paradigm through structural adjustment. The policy response of conservative political forces in the US and UK to the inflationary crisis of the 1970s and the Latin American debt crisis of the 1980s was to facilitate the institutional capture of the Bank by market-oriented neoliberal political economy as a vehicle to promote privatisation, liberalisation, and deregulation.8

This aspect of Babb’s account echoes the contributions of political economists from across the spectrum of epistemology and political commitment. Fine, Bayliss, and van Waeyenberge comment that the debt crisis was the final convulsion of the Bretton Woods order, after which neoliberal perspectives replaced a short and unusual flirtation with state intervention and poverty reduction during the 1970s.9 Mark Beeson and Iyanatul Islam likewise depict the outcome of the crisis as the constitution of the Bank, through structural adjustment, as the “...principal conduit for the transmission of neo-liberal ideas to developing countries”.10

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7 Ibid. Pg. 275
8 Babb, S., 2013. Pg. 276
In these accounts, US power is the determining factor in the shift from poverty reduction to structural adjustment. The transition followed from the political hostility to aid spending among neoliberal administrations elected in OECD countries in the context of the crisis of the Bretton Woods regime. The dominance of this ideology is epitomised by the appointment of Anne Krueger as chief economist, and the publication of the Berg Report as a pointed critique of the ‘over-extension’ of the state, reflecting US distaste for the ‘welfare spending’ of the McNamara years. Similar assessments are notable in the work of neo-Listian political economists Chang and Grabel; neo-Keynesian ex-Bank chief economist Joseph Stiglitz, and orthodox Marxist Paul Cammack. These events reflected, according to Fine and Jomo, more than a Kuhnian paradigm shift in economics – they were active efforts by the Reagan and Thatcher administrations to undermine the UN system by focusing on the Bank, which required the implantation of academically respected ideologues such as Deepak Lal as head of research to offer intellectual currency to the tool of structural adjustment.

Accounts of the mechanics of this transition may be aggregated into two broad groupings – the ‘Wall Street-Treasury nexus’, and ‘relative autonomy’. I turn first to the former.

Former Bank staffer Robert Wade has published a series of insightful papers which argue that whatever the nature of the development economics which animate the analyses informing Bank interventions, the future of the Bank and its role in global governance would likely display remarkable continuity in the face of calls from Stiglitz and Rodrik et al for the articulation of a ‘post-Washington Consensus’. For Wade, the durability of the liberal international trading and financial order and the continuing centrality of the Bretton Woods institutions to it throughout the crises of the 1990s was not, as claimed by neorealist and institutionalist theorising, evidence of the life given to an international regime beyond the causal factors of its foundation by the autonomy-conferring power of rules in bureaucratic structures.

Rather, the endurance of these institutions beyond the collapse of the Bretton Woods system was due to the fact that the Bank existed in a field of forces in which the basic premises of interaction were structured by American soft power. Not only did the US directly intervene, but its capability to dominate the Bank’s authorising environment enabled the American state to treat the

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13 Cammack, P., 2002. Pg. 126
Bank as part of its external infrastructural power in the post-cold war context.\textsuperscript{15} Drawing on the Gramscian concept of hegemony, Wade argues that the US exercises intellectual and moral leadership through the Bank by promoting the belief that free market capitalism is beneficial to all, and that the procedures and processes of governance are applied to it too. Perhaps more significantly, US ideology in respect of the role of governments and markets constitutes the “conceptual centre of gravity of Bank thinking”\textsuperscript{16}. Since a majority of Bank economists hold post-graduate qualifications from US universities, the Bank is located in Washington in close proximity to the organs of the US government and US think-tanks, and staff consume American print or TV media: “American premises structure the very mindset with which most Bank staff approach development”.\textsuperscript{17}

Likewise, free-trade advocate Jagdish Bhagwati conceives of the international financial institutions as components of a power elite of ideologues who equated their own interests with global interests, and deployed the power of office (on Wall Street, in the US Treasury and State Departments, the IMF and World Bank) to endorse neoliberal goals of free capital mobility.\textsuperscript{18}

Building on these foundations, Richard Peet suggests that there is a far wider ‘circle of consent’ than that found in Washington D.C – which includes not only Wall Street but the elite educational institutions such as Harvard, MIT, and their alumni in the central banks and Treasuries of the developing world.\textsuperscript{19} Neoliberals, as agents of the global super-rich and the transnational bourgeoisie, have exploited the hard power of the advanced capitalist countries through the international financial institutions through the leverage provided by the structural indebtedness of the poor, to implement the Washington Consensus and restore profitability to the enterprises owned by the rich, and the dividends on investments to the super-rich.\textsuperscript{20} It is above all a class project. However: “the trick lies in converting a politics, which represents a distinct class interest...into a practicality that appears to come from theory”.\textsuperscript{21}

The great strength of this approach is its ability to incorporate multiple factors in and features of US power: the hard power to withhold funding, covert power to dismiss prominent dissenters, and soft power in the discourse of free-market capitalism. However, foremost among the observations marshalled by such accounts to support the argument that the Bank is a more-or-less

\begin{itemize}
  \item \textsuperscript{15} Wade, R ‘The US Role in the Malaise at the World Bank: Get Up Gulliver’, paper presented at the meetings of the American Political Science Association, San Francisco, August 2001. Pg. 16
  \item \textsuperscript{16} Wade, R.H., 2002. Pg.218
  \item \textsuperscript{17} Ibid.
  \item \textsuperscript{20} Peet, R. 2009. Pg.1; 244; & 250-252
  \item \textsuperscript{21} Ibid. Pg. 26
\end{itemize}
passive tool of American foreign policy is the ideational colonisation of the institution and the production of an institutional commonsense. Significant causal weight is placed on the relatively opportunistic implantation of neoliberal intellectuals in key positions, and Bank strategy is framed in terms of its congruence with narrow elite epistemic communities. Behind this, at moments of crisis, the hard power of the US stands ready to implement its strategic objectives through the Bank by actively promoting institutional capture, as in the cases of Clausen and Krueger.

Recent Constructivist interventions constitute the ‘relative autonomy’ approach, which seeks to put more flesh on the bones of this slender sociology, at least in terms of the personnel and specific practices of the Bank itself. Of the writing on this crucial agency in the creation and governance of the post-war order, Chwieroth has provided a number of important contributions to the Constructivist paradigm. The Bank was, he shows, the central agency in the international liquidity architecture before multilateral convertibility. Further, its internal processes were key in shaping the tools which were deployed to create, support, and police the order. These features of the strategic and intellectual life of the organisation are mediated by rounds of recruitment. Staff who are aligned to specific practices and beliefs derived from their professional and educational background may be replaced or ‘supplanted’ by new staff with different ideas. These appointments and dismissals may lead to the development of ‘subcultures’, within which ‘norm entrepreneurs’ may emerge. The ability to institutionalise the values and strategies espoused by these individuals and groups is dependent on their ability to win what Chwieroth describes as a ‘battle of ideas’. Success in this regard is dependent on location within the organisation, and the possession of the discursive influence to outperform advocates of competing ideas. By focussing on the internal culture, collectively shared beliefs, institutional structure, and centring his analysis on the agency of management he is able to highlight the way in which major changes in the Bank’s lending approach took place at junctures and under conditions which do not correspond to the neat schema of paradigmatic shifts between ‘embedded liberalism’ in the Bretton Woods era, and neoliberalism in the Washington Consensus period.

The second comes from Patrick Sharma. Writing on the transition to structural adjustment, Sharma builds on Chwieroth’s intervention by emphasising the bureaucratic imperatives which shaped management agency. The major contribution which Sharma is able to offer is his observation that the flaws in the Bank’s operational procedures were a major catalyst in the change. To remain

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23 Ibid. Pg. 492.
24 Ibid. Pg. 482.
relevant, he argues, the Bank had to alter its procedures in order that it could disburse funds more rapidly. This suggests, as Chwieroth has shown regarding the project approach, that the shift to structural adjustment should likewise not be framed in the narrative and trajectory of the Washington Consensus.

However, the greatest problem facing Constructivist accounts is the issue of the specific form taken by the structural adjustment loan, or, for that matter, the project loan. Were these simply one choice, from a range of possibilities? Sharma offers the stipulation that the new lending model had to be quick-disbursing, and, by emphasising the bureaucratic imperative of the institution to survive, moves to head off the charge of voluntarism. Yet while he observes the importance of these internal processes, he does not explore their precise nature or origin and cannot fully explain why structural adjustment lending took the precise form it did. The charge of voluntarism must then stick.

There are further difficult questions which may be asked regarding the specific processes at work in the transition away from a dominant established norm. Firstly, what compels line managers – as arbiters of strategy – to adopt the premises advocated by newly-hired ‘norm entrepreneurs’? Chwieroth’s account of these processes is ultimately dependent upon the relative power of rhetoric in conjunction with personal ‘belief’. Yet because the mutability of common belief is not sufficient, recruitment rounds are deployed to bolster this factor as the determinant of such transitions. What is the difference between this thesis and the ‘institutional capture’ thesis of the Wall Street – Treasury Complex approach? It appears therefore that these transitions are a ‘numbers game’. The more like-minded new-hires, socialised into specific beliefs through professionalisation or education, the more likely it is that their new norm could displace the old. This feature of the analysis therefore suffers from the same problems as the ‘institutional capture’ thesis of the Wall Street – Treasury complex approach: by over-determining the internal processes of change, it can only conceptualise the institution as socially anchored in the same narrow elite as Wade and Peet.

Secondly, relying on these narrow social linkages suggests that normative change in the Bank is the reflection of Kuhnian paradigmatic changes in the elite epistemic communities into whose practices new recruits have been socialised. Therefore, a further problem familiar to the Wall Street – Treasury approach is retained: the conceptualisation of crisis as an external trigger of the processes leading to paradigmatic change within the Bank. Further, the nature of the shift in paradigm is broadly the same: the transitions from the inter-war liberal international order to the Bretton Woods order and again to the neoliberal era are read as major historical ruptures. Similarly to the ‘Wall Street-Treasury nexus’ accounts, the outcome of characterisation of the Bretton Woods order as ‘embedded liberalism’ mistakes the convergence of the interests of the US state and

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26 Sharma, P., 2013
financiers in the 1982 debt crisis and the broader neoliberal context for a novel political constellation, the power of which the Bank was simply unable to resist.

In building on these accounts, I will focus my analysis in the remainder of this paper on two features of the Bank. Firstly, I show that the nature and origins of the specific processes of institutional governance are of central importance for our understanding of the agency of the Bank. The techniques which McNamara used to control the institution were highly specific. They were not developed organically, within the institution, by norm entrepreneurs in a process of contestation. They were uniquely suited to the Bank’s imperative as an institution: to continue to expand its drawings on private capital, in order to pursue the US’ hegemonic agenda. These processes were at the cutting edge of American management techniques, and their extensive use of quantitative data modelling was familiar to US financiers. Their deployment made the Bank’s programme workable. The specificity of the processes through which the Bank was managed is, I argue, crucial for our understanding of why structural adjustment loans were the vehicle for the lending expansion demanded by the combination of the dollar glut and the advent of monetarist inflation targeting in the US Federal Reserve system.

Secondly, I will show that the tools which the Bank deploys are shaped by its imperatives as an institution anchored in the social infrastructure of American finance. Crucially, although I argue that the Bank was a key institution in the evolution of what Konings and Panitch describe as the American ‘informal empire’, its methods have not been derived in a straightforward fashion from the hard power of the US, or through the transmitting of hegemonic American ideologies. They have been developed pragmatically, as the Bank’s management sought to marry political pressures to act as an agent of US imperial governance and a development institution, with the particular requirements of American investors.

I turn next to the longer history of the origins of the structural adjustment, in the Bank’s response under Robert McNamara to the crisis of relevance to borrowers that the institution faced in the later 1960s.

2: The Bank, Private Finance, & Development Theory after the ‘Decade of Development’

For the World Bank Group, the problematique of the 1970s was defined by the new contradictions arising from the achievement of the multilateral trading order centred on the dollar towards which the Bank had striven throughout the 1950s. The impact of these contradictions was most obviously manifest in the fact that in spite of Woods’ efforts to counter the declining rate of disbursement by expanding the breadth of Bank lending to include sectors such as education and
agriculture, the institution as a whole was more liquid in 1968 than ever before: repayments in respect of disbursed funds were running at a significant surplus.

During the last months of the Woods presidency, the Bank had descended into crisis: at this point, in the later 1960s, it was virtually marginalised as a creditor – particularly with reference to its middle income group, who were the primary IBRD borrowers. Three factors drove the Bank’s marginalisation. First, the entry of the Bank’s largest borrowers into the Euromarkets: the increasing availability of foreign exchange in these markets enabled middle-income borrowers to avoid the conditions which were attached to Bank lending. As a result, the Bank’s influence over these members declined even while the institution became more exposed to the risk of default posed by members engaged in high-cost short-term borrowing as commodity prices fell..

Second, the inflationary impact of the Euromarkets on the American economy had a direct effect on the fortunes of the Bank’s concessional lending arm, the IDA, as successive administrations sought to curb the impact of overseas development aid on the deteriorating American balance of payments. The share of ODA in total financial flows to less developed countries fell from almost 40% to less than 30% between 1970 and 1981. Simultaneously, excluding loans to other BIS-reporting banks, net international bank credit rose from $260bn in 1975 to $1265bn in 1984, considerably outstripping international inflation.

Third, innovation in the lending practices of private banks: high borrower demand from riskier clients incentivised banks to innovate, developing the ‘syndicated loan’, which enabled a large number of investors to purchase small pieces of a large number of loans to different countries – reducing the individual bank’s exposure to default and promoting buoyant assessments of risk.

As a result of these dynamics, ODA flows declined significantly while debt service payments and ratios of debt to GDP in developing countries increased rapidly. Low-income countries which had limited access to international capital markets would reach the point of crisis first as terms of lending on ODA – including that of the Bank – hardened. The Bank and IDA had lent $953.5m in 1968 – a decrease of $176.8m from 1967 attributable to the exhaustion of IDA resources. The problem of creditworthiness among low-income and middle-income borrowers was a problem for the creditworthiness of the Bank. All these factors added up to an imperative to lend more – to prop up its members, and to offset the decline in ODA flows in order to avoid a client default.

27 Fryer, D.W., in Corbridge, S.E. (ed), Vol.1, 1999. Pg.113
28 Ibid. Pg. 35.
From the Bank’s perspective, the expansion of the lending programme which followed was
the expression not of a moral imperative, but of the financial imperative to retain the capacity to
exert financial discipline over borrowers. As this objective could not be pursued through the IDA, this
entailed new borrowing to supply the IBRD with operating capital. For this reason, the Bank sought
to overcome the crisis of relevance to its biggest middle-income clients by renovating its concept of
development.

The ’Development Agency’ & ‘Basic Needs’
The first step was ensuring that there would be demand for the Bank’s loans. As lending had
ground to a halt in 1967, McNamara’s predecessor, George Woods, had promised a ‘grand assize’ of
the progress, character, and direction of development, chiefly aimed at revitalising the constituency
for ODA amongst high-income donors. McNamara’s first act in the post of President was to fund a
blue-riband commission comprised of leading US development practitioners – Harvard’s Hollis
Chenery had served in USAID, from which he recruited Ernest Stern to the commission; and leading
economists including W. Arthur Lewis and Goran Ohlin, and chaired by the ex-prime minister of
Canada, Lester Pearson.

However, on publication, the commission’s report was met with significant scholarly
condemnation for its familiar recommendations concerning efforts to increase growth, reduce
protection of manufacturing export industries, facilitate the movement of private capital, and
increase the role of the IDA and IBRD.

The frosty reception lent further credence to the dramatically increased lending programme
which McNamara and his advisors had already begun to formulate. The Bank was to become a
’Development Agency’. Its remit, he considered, was not simply to pursue growth, but should be
concerned with the capacity to provide leadership in ‘development assistance’ to donors frustrated
with the lack of progress and poor countries marginalised by the exuberant post-war growth of the
rich. Alongside financial assistance, technical assistance would be expanded in order to overcome
the dearth of viable projects lamented by Woods, and a worldwide recruitment drive would be
launched. The great ‘productive machine’ of capitalism which the world had created in ‘the past few
generations’ could be directed by the Bank in such a way as to ‘abolish’ poverty.

McNamara’s ideas about the role the Bank should play in development were considerably
better received among the members of the academic community who had reacted to the Pearson

33 Blair, P. Interview with William Clark, World Bank/IFC Archives, Oral History Program, Washington D.C.
October 4th 1983. Pg.1-4
34 Commission on International Development, Partners in Development: Report of the Commission on
35 IBRD, IFC, IDA, 1968. Pg.13
Commission with such scathing criticism. These were informed by his observation that although the growth objectives of the ‘development decade’ were likely to be achieved, the benefits had accrued overwhelmingly to oil-exporting countries and had been skewed overwhelmingly to their urban areas. Beyond these privileged zones, McNamara considered that “…the peasant remains stuck in his immemorial poverty, living on the bare margin of subsistence.” Accordingly, lending to Latin America would double, while lending to sub-Saharan Africa would triple. The sectoral makeup of lending in his first five-year plan would change: commitments for education and agriculture would double and quadruple respectively. McNamara and his advisors had already calculated that abolishing poverty would require that from 1968 to 1973 the Bank group should commit double the volume of funds loaned from 1963 to 1968.

This was well-received by a number of prominent figures in academia, including Richard Jolly, Dudley Seers, and Hans Singer of the Institute of Development Studies. The central conclusion of the academic opprobrium directed at the Pearson report was that aid budgets should be massively increased and trade relationships should be restructured to support developing economies. This dovetailed neatly with McNamara’s conviction that the Bank should radically expand its operations. Indeed, a number of critical voices would go on to shape the strategy of the Bank in achieving the objectives of the McNamara era – particularly by impressing upon management the need to dramatically increase transfers, and incorporate redistributive objectives into development policy. Ernest Stern would subsequently become Senior Vice President for Operations, while Paul Streeten of Oxford would go on to develop the ‘Basic Needs’ approach with Mahbub ul Haq. Appointed during McNamara’s second term to the role of Chief Economist, Hollis Chenery drew upon the work of Singer and Jolly with the ILO in conceptualising ‘development’ as a problem of employment – and orienting Bank development policy around the concept of ‘Redistribution with Growth’.

The new programme showed promise in attracting applications to borrow: from 1969 to 1973, Bank lending commitments increased by 131% in constant dollars. This is a striking reversal of fortune, although, given the stagnation of the lending programme in 1968 it represents strong progress from a low base. However, it was not straightforward to translate the new agenda into actionable policy and achieve capital transfer in the volumes required either to represent success in the programme’s own terms, or to develop the leverage the Bank and its principals desired.

Although McNamara’s personal dynamism is not in question, the new agenda could not be translated into actionable policy in a straightforward fashion. Ideational changes sponsored by a charismatic ‘norm entrepreneur’ holding a position of institutional power do not fully explain the

36 IBRD, IFC, IDA, 1968. Pg.13
nature of the shift in Bank strategy under McNamara. To offer a more satisfactory account, it is necessary to explore the consequences of the Bank’s capitalisation in private financial markets. Realising the rejuvenation of the Bank in its ability to lend on the scale set out in the first five year plan, and returning it to a central position in the international liquidity architecture would require that the Bank would obtain significantly greater volumes of finance in the global capital markets.

In the following section, I will show that the precise way in which management was able to implement the ideas of development economists such as Singer, Jolly, Seers, and Streeten as Bank policy was shaped by the requirement to make them comprehensible to financiers who invested in Bank paper in search of a steady return.

3: Managing the ‘Development Agency’: Quantifying ‘Development’.

The social anchoring in private finance bequeathed a clear institutional imperative to the Bank: to remain commercially creditworthy. If the Bank were to undertake progressive steps towards redistributive development strategies and lend more for purposes which were not directly productive, management would have to find a way to negotiate the limits to the institution’s capacity to act which were posed by its capitalisation in private money markets.

There were significant obstacles to this objective. As the creditworthiness of its members declined, so the Bank itself would find it more expensive to borrow, and so the charges it levied upon members would increase. Lending more in order to ameliorate this vicious cycle and offset the risk of a default was therefore a necessity. If this were to be done in such a way as to attract borrowers without alienating the Bank’s creditors, significant changes to the institution’s structure and practices would have to be made.

While it is clear that tapping private capital markets offered the Bank significant new lending capacity and diminished its reliance upon its principals, it is an over-simplification to suggest that this conferred autonomy on the Bank. Rather, increasing the Bank’s capacity to lend required management to carefully negotiate the parameters to the institution’s action set by its social anchoring in private finance. This entailed a threefold renovation of the Bank’s strategy. First, a pragmatic re-engagement with its private financial backers. Second, the application of cutting-edge managerial techniques rooted in quantitative analysis. Third, a comprehensive reconfiguration of the Bank’s organisational structure. These three measures were essential in regaining the confidence of the Bank’s financial backers, and telegraphing the institution’s commitment to commercial creditworthiness.

In respect of the first of these, McNamara had a clear set of objectives from the outset. The Bank must further internationalise and diversify its borrowing in order to achieve greater autonomy
from the requirement that it turn to an increasingly truculent US treasury to tap the markets of New York. However, it rapidly became evident that public discussion of the five year plan and increases in borrowing and lending for ‘technical assistance’ had not improved the Bank’s standing in financial circles. Two disastrous bond issues in Switzerland and Germany, in which almost half the issue was unsold, reflected a deep distrust of the Bank’s new management and its ostensibly ‘socialist’ agenda.

The Bank’s treasurer, Robert Rotberg, and McNamara himself embarked on an intensive round of presentations to financiers in which no mention was made of McNamara’s objective to increase lending to the poor, and the non-cash-flow projects were underplayed. Rather, the liquidity of the Bank from a steady and increasing flow from borrowers, the diversity of its borrowing, and its historic credit standing were to be emphasised. Their campaign was a significant success both in respect of internationalisation and diversification. Bankers’ concerns were assuaged that with the strategy sketched out by Rotberg - spreading the risk to the Bank across sectors and around the globe, with tight supervision and macroeconomic guidance - the Bank would not transform itself into a welfare institution.

Appealing to the financiers in this way had significant implications for the Bank. Rotberg and McNamara considered that driving their programme to increase lending while retaining essential financial support would require more than simply building a “...a financial structure in the early 1970s with lots of liquidity, diversity of loans and sectors, quality of lending, etc.” In order to really expand its programs into education, population control, and subsistence agriculture, it would have to undertake major structural reforms which would help to quantify the impact and effectiveness of each dollar lent. Modifying the project strategy towards a sectoral focus allied to a country-wide program in such a way as not to undermine the revitalised relationship with financiers, or in Rotberg’s words, make it “difficult for the Swiss”, entailed drawing upon the managerial strategies McNamara had learned and taught at Harvard Business School –and refined at the Ford Motor Company and the Pentagon.

The ability to quantify the inputs and outputs of Bank activity was one of McNamara’s initial concerns on his accession to the Presidency. This lay at the core of his skillset as a manager, and had

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40 Kapur, D., Lewis, J., & Webb, R., Interview with Robert S. McNamara, Session 2 April 1, 1991. Pg.4
41 McNamara, R.S., address to the Bond Club of New York, May 14th 1969, cited in Kraske, J. et al, 1996. Pg. 80
delivered his greatest successes with Ford and the Pentagon – as well as his greatest failures in Vietnam and with the troubled US Air Force jet, the F-111. The use of statistical data was a key mechanism through which he would gain oversight of Bank operations, and enhance the ability of senior management to control policy. The method which was deployed had been developed by Charles Hitch and his team in the Office of Systems Analysis during McNamara’s time at the Pentagon. It was designed to produce explicit objective criteria for decisionmaking which excluded tradition, habit, and the institutional proclivities of any individual services or agencies. This was achieved on the basis of an investigation of the objectives and processes of each department, generating a set of statements of their requirements and costs, which could be projected into the future. Once these data had been produced and analysed, highly rational decisions could be made about how to maximise capability at the lowest cost.\textsuperscript{45}

With these strategies in place, McNamara felt that “...hell, I can control 3,000 people almost by myself...it's easy to control once you’ve set up measures.”\textsuperscript{46} The institutional basis of these ‘measures’ was twofold: firstly, a core of intellectual staff, who would perform a similar function to that of the Office of Systems Analysis, organised around Hollis Chenery, Mahbub ul Haq, and Ernest Stern. The second aspect of this was the foundation of a Program and Budgeting (P&B) department under Siem Aldewereld to operate as the practical control centre in terms of ‘input and output’.

P&B was intended as the vehicle for the quantitative analysis which would give the president greater insight into operations. The P&B department had an immediate impact through the systems-analysis derived design of McNamara’s first five year plan, developed through analysis of relative priorities among countries and within sectors of each economy, to be ‘directed from the top’\textsuperscript{47}. As at the Pentagon, this was the central objective: to remove the politics from decisionmaking through a hierarchical and centralised apparatus which facilitated the production and control of large volumes of detailed quantitative data.\textsuperscript{48}

The result of this was the introduction of the ‘Country Program Paper’ as a framework for Bank lending strategy in 1969. These were to be prepared annually by regional departments, and provide a comprehensive overview of a borrowers’ politics, economic situation, their external financing, and a proposal for a five year lending program.\textsuperscript{49} The objective was to extend presidential and senior management control over operations, while responding to economists’ concerns about

\textsuperscript{46} Kapur, D., Lewis, J., & Webb, R., Interview with Robert S. McNamara, Session 2 April 1, pg.23
\textsuperscript{48} Amadae, S.M., 2003. Pg.65
\textsuperscript{49} Kapur, D; Lewis, P; and Webb, R., 1997. Pg. 245.
the relationship of project-based interventions to macroeconomic policy - there had to be a single individual who could be considered responsible for Bank strategy in a particular country.

In McNamara’s view, the ability to derive quantitative information from Bank operations needed to be extended throughout the Bank’s processes and systems in order to streamline the relationship between country programs, sectoral strategies, and individual projects. Therefore, a reorganisation of the entire institution was warranted, and in order to retain the confidence of the investment community and ensure that it was implemented with the principles of scientific management in mind, McNamara would call in McKinsey & Co. in 1972.

The objective – simultaneously centralising functional authority in the office of the president, and decentralising administrative authority among operational divisions – was common to the US’ largest multinational corporations. It was designed to render the great complexity of function which the increasing diversity of Bank operations entailed legible to the economists and managers in Washington.\(^{50}\) The legibility of this structure of control was also extremely important to the Bank’s investors, whose money was tied up for twenty years in Bank paper. McNamara’s usage of the tools of quantification, econometric modelling, and regression analyses in order to reach a point at which a decision could be made reassured investors that the changes to the Bank’s staffing and strategy were allied to a set of policies which would offer longstanding security and control that prevent the financial standing of the Bank and the price of its paper from being undermined by concerns over the quality of its credit.\(^{51}\)

This was the broader objective – to support the extension of Bank borrowing in order to enable it to expand its lending operations among members who, thanks to their increasingly risky debt profiles, were less and less creditworthy.

The transformation of the Bank in this way was a key piece of the puzzle which would, once the debt crisis had struck, become known as the Washington Consensus. By 1973, McNamara could operate the institution as a highly centralised and hierarchical bureaucracy functionally controlled by a small team of senior management on the basis of detailed quantitative data concerning day-to-day operations. The broad oversight and tight control over operations exercised in this institutional form promoted the consideration of the individual productive projects the Bank was funding as ‘programmes of projects’, to be considered on a country-by-country basis under the Country Program Paper approach. During the second presidency from 1973-78, this would be an important aspect of the ‘basic needs’ approach: lending for purposes that were not directly productive and aimed to develop the agricultural base of the economy required greater insight into macroeconomic

\(^{50}\) Galambos, L., and Milobsky, D., 1995. Pg. 186
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performance in order to ensure that the benefits of investment in education and technical training would be subsequently realised and offset by increases in productivity elsewhere.

‘Basic Needs’ and the Consequences of Quantification

McNamara’s ability to remain in post for a second term as president and implement the second five year plan, with its focus on ‘basic needs’ as unveiled at the annual meeting in Nairobi in 1973, was predicated entirely on this foundation.

The ‘basic needs’ programme drew heavily upon the work of the group of development economists McNamara had encountered at the Williamsburg Conference during the post-mortem of the Pearson Report: Dudley Seers, Hans Singer, Richard Jolly, and Paul Streeten, who were affiliated with the ILO and Sussex’s IDS. It was profoundly shaped by Hollis Chenery, already appointed from Harvard to act as Economic Advisor and from 1972 promoted to the new VP Development Policy. Chenery’s work in particular had attracted the President, as immediately prior to his appointment to the Bank, he had been running a research project at Harvard entitled ‘Quantitative Research in Economic Development’. Hiring Chenery meant that McNamara was able to demonstrate that the development policy research behind his lending programme was as robust as the scientific techniques he personally applied to the managerial transformation of the Bank.

Whereas early theorisation of the dynamics of late development had been essentially qualitative, at the close of the 1960s, efforts were made to create rigorous positive models of the process of rural-urban migration which accounted for widespread and chronic urban unemployment in the context of growth. This had been an aspect of the research agendas which had followed from the ILO’s Employment Policy Convention.

Drafted in 1964, it had committed signatory governments to adopt activist policies aimed at full employment. This agenda had gained momentum in the later 1960s and in 1967 the ILO initiated its World Employment Programme, under which a series of case studies were undertaken in an effort to provide guidance for the governments concerned, as well as for aid and trade policies among donors and international organisations. Specialists participating in the programme were drawn from UNCTAD, the ILO, the WHO, the Inter-American Development Bank (IDB), and the Organisation of American States (OAS); a number of UN agencies including ECLA, the Food and Agriculture Organisation (FAO), UNESCO amongst others; the IDS at the University of Sussex; and the World Bank.

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The ‘Basic Needs’ agenda which McNamara outlined in Nairobi was predicated on the Bank’s achievement of a 100% increase in lending in real terms across 1964-8. This had been delivered through a four-fold increase in borrowing, which had increased the Bank’s liquid reserves by 170%. For McNamara, it was a moral imperative to deploy these resources to target ‘absolute’ poverty, a phenomenon which he depicted as to a “...condition of life so limited as to prevent realization of the potential of the genes with which one is born”, in contrast to the simple observation of ‘relative’ poverty – the simple observation that some societies were more prosperous than others.\textsuperscript{54} The ‘absolute’ poor were the large minority of the rural poor, who had seen no benefits from the productivity and income growth experienced by developing members had seen across the 1960s. Solving the problems of ‘absolute’ poverty in rural areas would require targeting lending towards small farmers, and encouraging redistributive policies which could assist in meeting the basic needs of the rural poor and the growth of the wider economy.\textsuperscript{55}

The central tenet of this approach was that there was no trade-off between redistributive policies and growth. There was, in fact, a tight linkage: if the rest of the economy did not grow, farmers would anyway lack the required inputs or demand for their output.\textsuperscript{56} Therefore, the Bank would increase its lending to $4.4bn in agriculture from $3.1bn in ‘69-'73, and advocate strongly that the governments of developing countries undertake the necessary redistributive reform in their spending policies in order to stave off the risk of revolution.\textsuperscript{57}

For the Bank, the most important feature of contemporary development theory was the way in which it reformulated ‘development’ as a problem of employment, not of growth alone. The Bank’s report on these matters, \textit{Redistribution with Growth}, appeared in 1974 and originated from discussions which arose from the involvement of Bank staff in the ILO studies, and Hollis Chenery’s engagement with the academic research of Singer, Jolly, and Seers at Sussex’s IDS. Orienting growth measures towards the enhancement of the productivity of the poor was selected as the mechanism through which it would be possible to “…make poverty...acceptable to the bankers.”\textsuperscript{58}

Bankers’ acceptance of poverty-oriented lending was thus not only predicated upon the transformation of the institution and the introduction of quantitative methods into operational control. The Bank’s development policy also had to be transformed to ensure that it drew upon the most cutting-edge positivist methodology. Positioning ‘development’ as a problem of employment

\textsuperscript{55} Ibid. Pg.13-17.
\textsuperscript{56} Ibid. Pg 22-3.
\textsuperscript{57} Ibid. Pg 34.
facilitated a move away from the Bank’s traditional exclusive focus on growth: the conventional requirement that each project should be self-amortising would not be dropped, but would be considered in terms of its contribution to the productivity of the wider economy. The reforms which Chenery’s research advocated were not project-specific – they required large-scale macro-economic transformation of both inherited colonial economic structures and the nationalist programmes of post-independence governments.

The most important implication of this strategy was that the performance of the Bank, and its ongoing ability to borrow and lend, was ever more tightly bound to the macroeconomic performance of borrowers. This was a second important step towards structural adjustment lending: the oversight and discipline which was required could only be had through the ‘Country Program Paper’ system with extreme difficulty. The project approach was reaching its limits.

**Operationalising ‘Basic Needs’: How the ‘Country Program Paper’ became the Structural Adjustment Loan.**

Providing positive modelling to back up the redistribution-with-growth approach may have made the idea and rhetoric of ‘basic needs’ lending programmes acceptable to the bankers, but it did not necessarily feed in to Bank policy in the way in which had been anticipated. Further, the nature of the new lending programme and the turbulence of the international economy meant that it was extremely difficult to implement while holding strictly to the conditional project model. In the early 1970s, work was organised on the basis of projects which were productive on the basis of the ‘Country Program Paper’ approach, which had been introduced as one of McNamara’s first reforms, prior to the 1972 reorganisation. This sought to aggregate groups of projects within an individual borrower to improve the Bank’s ability to enter into dialogue with borrowers and exercise greater influence over sectoral and macroeconomic policy.

Firstly, ‘basic needs’ objectives cut across agriculture, health, education, and employment – it was difficult to ‘projectise’ these objectives while targeting a specific vulnerable social group. Accordingly, the delivery of primary health care, nutrition, and education projects was allowed to become an ‘area’ project – the concept of lending for productive ‘projects’ was rapidly becoming more loosely-defined. Adding to this, the Bank began to embrace the fungibility of development lending: the proportion of ‘project’ costs which were financed locally rose to 60 or 70% - permitting the borrowing government greater flexibility in utilising the foreign exchange provided by the loan. This gave loans under the rubric of ‘basic needs’ the character of program lending in many cases.

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59 Ibid. Pg.14  
60 Ibid. Pg.13-14
Secondly the slippage toward programme lending, and the end of a twenty-five-year tradition of project lending, was accelerated by trends in the international economy. The Bank was forced to offer relatively soft program loans to countries whose ability to repay private creditors was jeopardised by inflation and declining terms of trade following the steep oil price increase in 1974. In this environment, as middle-income borrowers retained the ability to hire foreign exchange easily in international capital markets, it was impossible to utilise project lending to enforce conditionality. While official credit grew across the decade, it was outstripped as a shift occurred to direct borrowing in capital markets through the issue of bonds and from private banks.\textsuperscript{61} The Bank was not slow to apprehend that its falling share of financing equated to a limitation of its policy leverage. The essentially macroeconomic reforms required by the ‘basic needs’ and ‘redistribution with growth’ concepts demanded programme-level conditionality.

The depth of political involvement which ‘basic needs’ lending required was the greatest stumbling block to the expansion of this mode of lending: while opposition from the Board was strong in view of concerns about overlapping with the mandate of the Fund, or the legal mandate in the Articles – the greatest problem was the lack of interest on the part of the targeted high and middle-income borrowers.

For these reasons, it should not be surprising to note that practices which would later fall under the rubric of structural adjustment have the longest history amongst low income countries, particularly those of sub-Saharan Africa. Among the poorest section of the Bank’s borrowing membership, although the majority of debt was fixed or lower rate and either owed directly to or guaranteed by official creditors, indebtedness was both more severe than among middle income defaulters and low-income Asian countries measured by servicing ratios, and reached crisis proportions earlier.\textsuperscript{62} Here the Bank’s status as a creditor meant that its leverage was greatest, and the outcome of the combination of quantification and ‘redistribution with growth’ necessarily looked much more like ‘structural adjustment’ than ‘basic needs’.

The case of the 1974 loan to Kenya provides an example of the step-wise incorporation of practices which would become familiar as structural adjustment loans after 1980. A programme loan was made conditional on the acceptance of an overall macro- and micro-economic plan within the ‘basic needs’ framework. Although Kenya’s debt burden was comparatively light, the Bank was able to exercise considerable leverage as terms of trade deteriorated. The Bank was responsible for approximately 36% of its total external debt in 1974, and its debt service ratio (including members of

\textsuperscript{62} Humphreys, C., and Underwood, J., in Corbridge, S.E., (ed) 1999. Pg.348
the East African Community for which Kenya was responsible) was only 6%. In lending to Kenya the Bank was able to engage in ‘structural adjustment’ in all but name, in support of the ‘basic needs’ agenda, from 1975.

The Kenyan loan exemplified the McNamara Bank’s adoption of the ILO’s conception of development as an employment and distribution problem. The operationalisation of this redistributive ‘basic needs’ package of reforms required Kenya’s structural transformation into an agricultural export – oriented economy. It required the use of hard conditionality in extracting commitments from the Kenyatta government to push through macroeconomic reforms in the form of politically unpalatable spending cuts which negatively impacted the popular standard of living.

In a 1975 report, the Bank noted that Kenya was faced with deteriorating terms of trade for its main plantation crop exports. It considered that “Kenya does not really have the option to continue the past pattern of growth, however successful it may have been, and that a material change in the structure or development would be required if Kenya’s own development goals are to be achieved.” Projections suggested that this would hinder the capital investment required to produce for export at sufficient volume to offset the deterioration in prices, and to absorb the expanding labour force – unless Kenya obtained increased external financing. Accordingly, the Bank advised the Kenyan government that it would need to demonstrate its commitment to bringing its balance of payments under control before a loan could be agreed.

The outcome of this was evident in the budget presented for financial year 1975 – which aimed to curtail demand through new taxes, stringent credit restraint, increased interest and deposit rates, and a freeze on public expenditure. In the program which it subsequently presented to the National Assembly in 1975 as an official policy statement, the rate of expenditure growth in the development budget would be cut from 12 % to 8% per annum in the 1974-8 plan, and would be reallocated from infrastructure to agriculture and water. It acknowledged that not only would this create conditions of real hardship as incomes would fall and unemployment would rise, but that these measures would not close the balance of payments gap – and increased ODA flows would be required, along with new types of assistance such as the Bank’s program loan.

On this basis, a programme loan of $30 million was agreed with the Kenyan government on May 30th 1975 was designed to offer support for increased expenditure on agricultural production

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63 IBRD, Report and Recommendation of the President to the Executive Directors on a Proposed Program Loan to the Republic of Kenya, Washington, May 6th 1975. Pg.17
64 World Bank, Report and Recommendation of the President to the Executive Directors on a Proposed Program Loan to the Republic of Kenya, Washington D.C., May 6th 1975. Pg.1
65 Ibid. Pg.2-4
66 Ibid. Pg.8
67 Ibid. Pg.5
and planning, and for the financing of essential imports. This precedes the first officially designated structural adjustment loan by fully five years, and the decision to formally adopt develop ‘structural adjustment lending’ strategy as a Bank policy by three years.

Yet the most important point to emerge from this short case-study is not simply that the roots of structural adjustment are longer than generally conceived. Structural adjustment was initially conceived of - in the words of Ernest Stern, McNamara's VP Operations – as a ‘prophylactic’, which could prevent such balance of payments problems. The character of ‘basic needs’ and ‘redistribution with growth’ demanded macro-economic programming, in order to ensure that the elements of the agenda which were not directly productive were situated in a fiscally sound framework. Financial imperatives caused the adoption of the progressive agenda of the ILO and IDS to stretch the project approach beyond its limits. The security demanded by investors, without which the extension of Bank lending would not have been possible, bound the performance of the Bank to the performance of borrowers.

At the outset, it was a deliberately and carefully technicised mode of political engagement, designed to assist management regain the policy leverage which had become so precarious that, to paraphrase Stern once again, tougher conditionality was the only available tool through which the Bank could get a seat at the table for major sectoral and macroeconomic policy issues.

That the macroeconomic analyses which the Bank staff had long carried out as background studies were transformed in the course of the 1970s into specifically structural analyses aimed at programmatic economic reorganisation – from balance of payments and capital flows to structural aspects of production, employment, spending, and the profile of sovereign debt – was a consequence of the strategy of introducing the principles of scientific management to the Bank in order to reassure financiers that ‘basic needs’ would not see the institution dabble in ‘philanthropy’.

This problem was duly made the focal point the speech in which McNamara presented the policy to the Governors in Belgrade in 1979. The developing countries of the world, he noted, were increasingly looking to the Bank as the principal source of development assistance. The responsibility of the Bank would be to offer targeted assistance through programs aimed at raising the productivity of the poor on the basis of comprehensive analysis of the situations of individual

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70 Kraske, J., Galambos, L., Milobsky, D., Interview with Ernest Stern, January 5th 1995.
borrowers – providing external support on a program basis to countries willing to take ‘hard decisions’ to achieve internal structural adjustment before balance of payments problems arose.\textsuperscript{71}

Those countries, he argued, had to implement effective policies to accelerate agricultural growth rates, and rates of saving and reinvestment. Growth was a basic essential, and developing countries should make every effort to increase it, but they must also develop “...their own plans of action to provide specific improvements in the standard of life of the absolute poor...” The major effort would come from developing countries themselves as “...no amount of outside assistance from the international community can substitute for determined internal efforts by individual developing societies.”\textsuperscript{72}

The development decades had failed, even though growth targets had been met. It was time, McNamara argued, that the developing world acknowledged responsibility for this failure. The Bank could offer quantitative targets for the assessment of progress, and a framework for national programmes of action – but the primary responsibility for the governance of the international order should be taken on by the developing world in ensuring that their own policy frameworks reflected their comparative advantage.\textsuperscript{73}

Opening the age of ‘structural adjustment’ with this claim appears paradoxical in view of the extent to which the political economy of borrowing members would be shaped by acceptance of the Bank’s strictures. Gaining the ability to influence policy had long been considered the most important objective in the relationship between Bank and applicant, as far as McNamara had been concerned. This was due entirely to the necessity of making ‘basic needs’ lending for activities which were not directly productive legible to the Bank’s financial backers.

\textbf{Conclusion}

It is somewhat misleading to claim that development of neoliberal strategies was a radical break from previous practices. Among the poorest borrowers, the ostensibly progressive ‘Basic Needs’ concept had looked like ‘structural adjustment’ from the outset. From this perspective, the Bank emerges as more than the vehicle for the operationalisation of the political interests of dominant class fractions or ascendant epistemic communities.

As I have shown it was not exclusively driven from outside the Bank, nor was it driven solely from within by a powerful figure on a moral crusade. McNamara’s Bank was not a philanthropic

\textsuperscript{72}Ibid. Pg.29
\textsuperscript{73}Ibid. Pg.30-40
organisation, as he was keen to demonstrate. The transformation of the Bank and its strategies were the outcome of the application of quantitative techniques of scientific management to redistributive ‘basic needs’ lending programmes, in order to make non-productive lending legible to financiers. The technology of the 1960s was no longer functional: it did not give the Bank the capacity to govern which executing its new programme while continuing to meet the institutional imperatives which followed from its social anchoring in US finance.

While the Bank’s reliance on financial capital did afford it a degree of autonomy from the US, drawing capital from these sources required adopting managerial practices that were derived from elite academia, and were common to large TNCs and the US government. This also tied it ever more closely to a commercial lending model, which required tougher conditionalities. The defining techniques of neoliberal governance were not developed via institutional capture by the Wall Street-Treasury Nexus or the generation of a neoliberal culture by internal norm entrepreneurs. The novel technology of governance which McNamara brought with him was not a direct product of the needs of ‘the market’, but it spoke clearly to the Bank’s investors. Neoliberal governance was a development of an institutional order. It was the agency of Bank management, which, in managing these requirements while simultaneously meeting its own organisational imperatives, enabled the World Bank Group of the 1980s to step back into the liquidity-providing and financial discipline-enforcing role of the IBRD of the 1940s. In order to return the Bank to a central position in the governance apparatus, McNamara’s intention was to expand the Bank’s borrowing in order to facilitate a massively enlarged lending campaign in rural agriculture and education. The ‘basic needs’ was programme was designed to reinvigorate ‘development lending’, and foster redistributive spending on education and agriculture projects that were not directly productive. Here, the Bank ran up against the limits posed by its basis in private financial capital – in the most clearly communicable way possible, through a disastrous bond issue.

The transformations which McNamara made to the Bank in order to make these indirectly productive investments legible to the Bank’s financial backers as safe and profitable required management to effect two major transformations. These transformations were significant steps in the direction of structural adjustment.

Firstly, the Bank had to be reorganised. To this end, McNamara deployed the tools of the RAND Corporation, which he had learned at the Pentagon: systems analysis, and the foundation of a programming and budgeting unit which would generate large volumes of statistical data about the Bank’s operations in the field and in Washington. These tools, as the cutting edge of American management science, allied to the transformation of the Bank into the structure of a standard multidivisional corporation, would make the new model legible to investors.
Secondly, the enhanced ability to control the Bank’s operations had to be reflected in the leverage the Bank could project over the macroeconomic policy settings of the borrower. Essentially, the ‘basic needs’ model and the project model were incompatible with the Bank’s requirements. The primary criterion for its replacement was that it would facilitate the sectoral restructuring that ‘basic needs’ and ‘redistribution with growth’ demanded, and communicate the overall soundness of the investment to financiers.

The only technology which could meet these criteria within the parameters set by the financial community in which the Bank was anchored, was conditional programme lending. Rehabilitating the programme model which the Bank had discarded as its principal lending strategy in the 1950s was essential, as it was the only technology which offered the scope for macroeconomic conditionality which the Bank’s creditworthiness demanded. With these steps, McNamara had established the structure of organisational control and the macroeconomic conditionalities which would become familiar as structural adjustment lending after 1980.

At each point in this transition, the limits to the Bank’s capacity to pursue the agenda of governance are clearly visible, as are the limits to the agency of management in defining the nature of the tools through which the agenda of governance could be pursued. However, it should be clear that the turn to structural adjustment was not, any more than the project model, an extension of American ideology or policy. However well-suited it was for enforcing the austerity programmes the Baker Plan demanded, structural adjustment was not an off-the-shelf market-oriented US imposition. The tools of governance deployed by the World Bank today as during the Bretton Woods era, reflect management’s pragmatic negotiation of the imperatives of American finance.
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