

The 1960s and 1970s: The World Bank Attacks Poverty; Developing Countries Attack the IMF

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In section two of part one, we discussed the formation of the International Monetary Fund (IMF) and the World Bank. We noted that the founders of the institutions did not focus on "development" per se. Instead, their vision of the world was broader. They envisioned that the IMF and the World Bank would help bring about peace and prosperity in a universal way.

The founders' universal image of life changed during the 1960s and 1970s. With the post-war decolonization wave came the realization that economic development was not as universal as the founders had supposed. The gap between the rich and the poor in developing countries grew extensively. So, too, did the wealth gap between developed and developing countries.

In the first part of this section, we will describe how the World Bank's lending operations turned from narrowly focused project lending to massive loan programs to alleviate poverty and promote development in the "Third World." The loans were given to governments to help them with their efforts to develop under a state-led model of development.

During this time, the concept of development itself was changing. Economic growth statistics alone could no longer adequately reflect development. Concepts relating to the overall quality of life needed to be taken into consideration, including the importance of having communities truly participate in the process of development.

The first part concludes by pointing out the weaknesses in the World Bank's top-down approach to development. At about the same time that policymakers began to recognize these weaknesses, they also began to see the weaknesses of the state-led, import-substitution model of development.

The second part of this section describes the rise of a movement called the New International Economic Order. It was organized by developing countries, many of whom had recently been decolonized. They did not think the "universal" system created by the founders of the IMF and the World Bank in the 1940s was fair.

Institutions like the IMF gave developing countries very little voice in important matters relating to international finance and development. So, these countries demanded fundamental changes in the international economic order in order to bring meaning to their newly found sovereignty. Most of the NIEO's agenda was not implemented, in part because the powerful industrial countries thought the demands were unrealistic.

A. World Bank Attacks Poverty

1. Early World Bank Lending was Centered on the Concept of Economic Development.

It was quite obvious during the early days of the World Bank that the reconstruction of Europe would take priority over development. But, in actuality, the World Bank made only a few loans to Europe. This was due to the U.S. Marshall Plan, which took over most of the financing for the reconstruction of Europe.

With one of its two main responsibilities gone, the World Bank made many loans to developing countries early on. Within the next few decades, the number of developing nations grew. In the 1960s and 1970s, more countries joined the ranks of developing nations as newly independent states emerged out of the grips of colonialism.

At first, these new nations focused on obtaining and strengthening their sovereignty. Their main focus was the right to self-determination and recognition of their sovereignty. Many countries expected that once this was established, their economies would flourish and "development" would follow.

Unfortunately, many of the ex-colonies had been used by the colonial powers as sources of raw materials and as markets for industrial and manufactured goods. Few of these new countries, therefore, had the infrastructure and industrial power that would sustain economic development.

In order to build the economies of the developing nations, the World Bank engaged in project lending. The aim of the early projects was to increase the nations' abilities to sustain economic development through generating income from projects. The only way to do this was to build up the resources necessary for economic growth.

Early World Bank lending to developing nations stressed the development of infrastructure, industry, and agriculture. For instance, it was important to develop electric power plants and roads before manufacturing factories could open and before light and

heavy industry could be developed. None of these economic activities could develop without electric power. Without good roads, no investor would want to do business with a country because there was no way to transport products. Thus, the World Bank project lending was intended to foster a welcoming environment for the factors that lead to economic growth.

2. Economic Growth was Accompanied by Unequal Distribution of Wealth.

The post-colonial push to develop did result in higher rates of growth. Many developing countries witnessed increases in per capita income (total income in a country divided by the number of people) and gross national product (the value of goods and services produced and sold in a given time period), but most of the increases in income were concentrated in sectors directly involved in what became a state-led process of economic development. Typically, the government sector, those employed in industries, and those who otherwise had special ties to the government or to foreign investors benefited the most.

Many other people—those not connected to the key sectors—did not benefit from this type of development. The push to develop led to great migrations of people from rural areas to big cities, where many could not find jobs. In addition, development projects tended to favor industrialization over agricultural development, which led to increased poverty in rural areas.

Some policymakers thought that the gap between the rich and the poor would eventually shrink with increased economic growth. They believed that if government policy favored the sectors that appeared to be thriving, the whole country would be better off. In other words, the increased wealth generated from development would "trickle down" to the poorer sectors of society.

3. The Change to Program Lending Reflected the World Bank's Shift to "Growth With Equity."

In the 1960s, many policymakers realized that the trickle-down approach to development was not improving the circumstances of the poor. In fact, some believed that benefits were "trickling up." Because of the very obvious maldistribution of wealth, governments in developing countries established social programs intended to directly address the poverty. These programs were aimed at improving housing, education, health, energy, and transportation.

Between 1973 and 1980, the World Bank, led by Robert McNamara, became a significant actor in the push to address social welfare in developing countries. In his view, it

was imperative (in light of the Cold War) for the World Bank to work with governments to eradicate absolute poverty in developing nations.

With financial and technical assistance from the World Bank and developed nations, the governments of developing countries implemented state-run programs aimed at improving the lot of their nation's citizens. Development was controlled directly by the state and its policies. This was part of a broader model of development that emphasized state-led industrialization via import substitution.

By this time, development was no longer measured solely by statistics relating to economic growth. Notable experts began to question the assumption that there was a trade-off between policies promoting overall economic growth and policies advancing equitable distribution of income and assets—a country could advance both interests at the same time. Policymakers also began to take into account a person's quality of life and the ability to meet the basic needs of the population. All of these measures fell under the "growth with equity" approach to development.

The "growth with equity" approach was evident in the new types of programs that were initiated at the World Bank. Although project lending aimed at the development of infrastructure, industry, and agriculture still continued, the programs initiated during the McNamara era were directly aimed at the eradication of absolute poverty. The World Bank lent large sums to facilitate rural development, urban development, and development of small-scale industry. Bank loans also helped to develop programs for the improvement of health, nutrition, family planning, and educational services. The aim of this effort was to provide for the impoverished and under-employed sectors of the population in a country.

It is important to understand that many policymakers did not think the great push to attack poverty would magically lead to economic equality between developed and developing countries. The objective was to improve people's lives by addressing minimum needs relating to food, shelter, clothing, health, education, work, etc. This approach also took into consideration qualitative factors such as a humane and satisfying environment and popular participation in decision-making—factors that would eventually lead to the type of development model we have today.

4. The World Bank's Top-down Approach to Development was Ineffective in Many Cases.

During the McNamara years, however, pressure to lend was high because of the

internal culture of the World Bank. Success was measured in terms of how many loans were approved. So, the emphasis was on output instead of on the outcome of particular projects. In the name of output, the same techniques and technologies were implemented in every locality.

Unfortunately for the poor, many of these projects failed because they were inappropriate for the locality. The programs were not necessarily tailored to the specific needs of a particular population or culture. Consequently, the programs did not produce the gains that were expected and often destroyed the environment.

Another top-down approach to development—the import-substitution model—also began to show weaknesses during the 1960s and 1970s. That approach, implemented widely in Latin America and parts of Asia, sought to jump-start development by promoting industrialization. Accordingly, governments heavily regulated market activity in the domestic sectors (e.g., subsidies and price controls) as well as in the international arena (e.g., trade barriers and foreign investment regulation). Typically, much of the market activity was dominated by state-owned enterprises.

Although supporters of the import-substitution model point to sizeable economic growth rates between the 1960s and 1970s, the statist policies ultimately led to chronically slower, inefficient, and inequitable growth.

B. Developing Countries Attack the IMF

1. The NIEO Movement Demanded Effective Sovereignty.

As the World Bank preoccupied itself with the unequal distribution of income within countries, developing countries began to call for a redistribution of wealth from the industrialized countries to developing countries. This demand was part of a movement called the New International Economic Order (NIEO).

The NIEO was, in essence, a demand for effective sovereignty. During the 1960s and 1970s, newly independent ex-colonies were coming of age and demanding a greater share of the world's wealth and more participation in the decision-making processes that affected world issues, especially in economic matters that had great implications for the well-being of their populations.

At the United Nations, where each country had one vote, (this was not true at the

IMF), developing countries successfully passed a number of resolutions during the mid-1970s that embodied the NIEO's agenda relating to the international economic order. The resolutions demanded the transfer of resources from developed nations in the form of technology, open markets, and direct aid.

The demands also called for greater equality between developing and developed countries through more favorable terms of trade. Moreover, developing countries claimed "full permanent sovereignty" over their natural resources and claimed the sovereign right to nationalize private property. The resolutions also called for the reallocation of trading power through cartels and regional blocs, and codes of conduct for multinational corporations.

2. The NIEO Failed to Change the Power Structures Underlying the International Economic Order.

Most important to this discussion is the strong critique of the IMF and the World Bank. Critics claimed that the IMF and the World Bank had been created based on the interests of the developed nations. So it was very likely that the monetary and trade system that they set up would only cater to the interests of developed nations and ignore the interests of developing nations. This system exacerbated the inequality of economic power, political power, and growth rates between developed and developing countries.

To correct what was perceived to be an inherently unfair monetary system, the UN General Assembly called for the one-nation-one-vote rule at both the IMF and the World Bank and a change from the "strict" conditionality of IMF loans. The demand for a voting revision was in line with the call for greater political equality between nations. Developing countries believed the existing voting system based on quotas (which, in turn, were based on a country's economic power) was unfair because many nations did not even exist at the time that the IMF and the World Bank were formed.

The NIEO also demanded that Special Drawing Rights (SDRs), a monetary reserve asset created by the IMF, be linked to development. There were two suggested modes of linkage: organic and inorganic. Under the organic method, the number of SDRs allocated would take into consideration the level of need for development. By contrast, under the inorganic method of allocation, quotas would be paid in as before, but the quota subscriptions of developed nations would go to institutions that benefited developing nations. One such institution is the International Development Association, an affiliate of the World Bank that provides concessional loans to very poor countries.

The NIEO's efforts were largely fruitless, in part because of the golden rule—those who have the gold make the rules. But some of the NIEO's demands were unrealistic, which led critics to downplay the significance of the UN resolutions. In any event, the NIEO receded into the background when the debt crisis hit many developing nations in the early 1980s. Thereafter, everyone concentrated on trying to cope with highly indebted developing countries teetering on the brink of economic collapse.

The interesting thing about the NIEO is that the movement was based on the hope that the markets would help developing countries prosper. They still believed, for example, that trade was key to development. They also believed that multilateral institutions like the IMF were worthwhile. What developing countries wanted, though, was a fair shake from developed nations. The NIEO stood for the proposition that developed countries should bear some burden in the development of poorer nations. This meant that the developed states would have to extend more favorable terms of trade, more finance, and more political power to developing nations.