This is the final article in our series commemorating the fortieth anniversary of Bretton Woods. Andrew Kamarck was with the World Bank for 28 years, holding a number of senior positions in the institution. Since retiring from the Bank, he has been Associate Fellow at the Harvard Institute of International Development. In this strictly personal perspective, he reflects about the Bank's past efforts to promote development, including some of the obstacles it has faced, and the important role it has to play in the future.

The World Bank and development: a personal perspective

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The World Bank has been, and is, a remarkable, pragmatic institution, with an outstanding capacity to learn from experience. Since it was created 40 years ago, its policies and organization have evolved almost continuously to help member countries handle the multitude of different problems that arise during the course of development. Initially, it paid little attention to academic economic development theory, making its decisions instead on the basis of what the staff found to be the real problems in the field and on what experience taught was effective in handling them. For many years, the Bank did not even make much of an effort to disseminate the results of its rich operational experience, knowledge, and research. But beginning with the creation of a strong central economics department by George Woods in 1964, by the late 1970s the research staff had been built up to the point that some of the published work appeared to be largely academic in nature. The recent change in emphasis to increase economic capacity within the operational departments is a return toward earlier pragmatic practice.

The six articles and the **Milestones** *chronology in the series* **Bretton Woods at Forty** *have now been published in a collection (English only) available without charge from* **Finance & Development,** *International Monetary Fund, Washington, DC 20431, USA.*

A dominant theme of the history of the Bank has been the almost continuous growth of its resources and operations. Since the beginning of Eugene Black's term as President in mid-1949, lending by the Bank family (IBRD, the International Development Association, and the International Finance Corporation), grew in real terms at a rate fluctuating around 10 percent a year. This rate held for the Eugene Black–George Woods period that ended in 1968, when no special emphasis was put on expanding lending per se, as well as for the subsequent McNamara years when high priority was placed on achieving lending targets, and it has been true so far of the Clausen era. The recent cutback in the size of the Seventh IDA Replenishment, if it proves more than a temporary anomaly, would mean a fundamental change in this trend. However, while the provision of external resources to its member countries remains a necessary function of the Bank, it is arguable whether some of its other activities (discussed later) do not now make an even more vital contribution to economic development in its member countries. Because Bank loans and IDA credits are reckoned in numbers, while the other contributions of the Bank are harder or impossible to quantify, the lending story is well known. This article will therefore tend rather to emphasize the latter to redress the overall imbalance.

Evolution of lending

The early emphasis of the Bank was on loans for building up infrastructure. This was not based on any abstract theory of development but on the fact that in the early years after World War II, the constraint on development in the Bank's member countries was a lack of capacity in railroads, ports, roads, and electric power. Because of the Great Depression and World War II, there was little investment in infrastructure for over a decade and much of the existing capacity had run down. With the high demand from the postwar prosperity of the industrial world, the commodity-producing sectors of many of the Bank's member countries were able to increase their output faster than their infrastructure could handle it.

For many of the major borrowers in this period (the temperate zone countries of Northern and Southern Europe, Japan, and Australia), the role of the Bank was relatively straightforward. All that was needed was the provision of some capital to finance economically justifiable infrastructure projects and occasionally a quiet agreement on measures to improve macroeconomic policies. The rest was in place. These countries already possessed a dynamic culture oriented toward material progress; an educated, trained, labor force; and an entrepreneurial, market-oriented economic structure. The existing known technology of the industrial world was applicable and easily transferable to them. Further, these countries had already evolved the national unity and effective government bureaucracy needed to provide the national leadership and cohesion for a continuing process of economic growth. Success was not only attainable but—since the countries involved were mostly democracies with governments receptive to the needs of their peoples—growth was likely to benefit all. By the 1960s, most of these countries no longer needed to borrow from the Bank and had clearly become part of the industrial world.

The Bank discovered that, in the countries that continued to need help, many of the prerequisites for development that existed in the countries that had been early borrowers could not be counted on. The process of development in these countries, therefore, demanded a much more complex response than simply providing external capital. For example, when groundnuts were being heaped into pyramids in Northern Nigeria because the railway did not have the capacity to carry them to the ports, lending priorities were relatively easy to assess. But once the railway could cope with the existing commodity-producing capabilities of the economy, new problems began to emerge. Lending could and did continue to allow the infrastructure to keep pace with the commodity-producing sectors. But beyond this, it became clear that help was also needed to *accelerate* growth in these sectors and to create new industries and new initiatives.

A logical consequence was the creation of the IFC in 1956 to aid private entrepreneurs in industry. In agriculture, the Bank began to experiment with a wide gamut of innovative projects. It also established close relationships with the Food and Agriculture Organization, including the recruitment of special FAO staff to work with the Bank (and this substantially improved the performance of the whole FAO organization). As a result, the total of Bank (and IDA) resources devoted to agriculture and rural development has, for some years, exceeded that going into any other major sector.

But making capital available to industry and agriculture was not the whole answer; there had to exist economic demand for it. And here education played a crucial, if long-term, role. After Tunisia had become independent and joined the Bank in the late 1950s, a Bank mission found that to improve growth, an expansion of education was needed to stimulate entrepreneurship, to train workers, and to secure all the other unquantifiable benefits that education could bring to the transformation of an economy. Thus, the Bank entered the field of financing education.

The Bank's involvement with training government officials arose from a similar concern. As early as 1955, it was clear that a strategic factor in the relative performance of different countries that were otherwise roughly comparable was the quality of economic management within the government. The Bank, as a result, established the Economic Development Institute to help train senior government officials. Beginning with an initial course of 14 participants, it took 14 years to train the first thousand. By the end of the 1970s, this total was being surpassed each year in courses run or cosponsored by the EDI in Washington and in member countries around the world.

Even with these new programs in industry, agriculture, education, and training, it was apparent by 1960 that for many poor countries development was going to be so slow that they could not take on much debt on the usual Bank terms. The IDA was consequently created.

Limits

Since the 1970s, it has been increasingly obvious that the Bank is still seriously constrained in what it can do to help development in many of its member countries. The first major problem is that most of its current borrowers are tropical countries, where much of the existing knowledge and experience of the industrial temperate zones is not applicable. Tropical agriculture, for instance, is very different from agriculture in temperate zones, and the first need is to expand research on those particular characteristics that affect its development. In 1971, the Bank took the initiative to set up the comprehensive Consultative Group on International Agricultural Research in partnership with the FAO and the United Nations Development Program. While the institutes financed by CGIAR have already made a substantial contribution to agricultural output in the tropics, progress in agricultural research and its dissemination to farmers is slow.

A major and special limit on growth in the tropics is disease. Not only are tropical diseases and predators of crops and livestock more virulent than those in the temperate zones, but human diseases are too. The tropics are also subject to most of the temperate zone diseases but these are more difficult to resist where heat permits a faster multiplication of both the vector and the disease organism. The house fly (which spreads the baby-killing bacillary dysentery and other diseases) becomes an adult four times faster at 30 degrees Celsius than at 16 degrees. The speed of multiplication of the malaria parasite within the host mosquito also increases directly with heat. Few tropical diseases have been brought under control; in fact, the research effort necessary to achieve control has barely started. Only in 1975 was a coordinated international effort begun, with the active participation of the Bank, to try to discover, develop, and apply new technologies for the control of six of these tropical diseases.

The lack of knowledge on how to cope with the tropics is not the only factor that limits how much the Bank can help development in its member countries. While they are unmeasurable and vary between countries and cultures, the limits on the human and institutional capacity to adapt to the strains and changes mandated by rapid economic development are the second major constraint on development. For example, most of the Bank's current borrowers are newly independent countries where the institutional framework is severely tested by the stresses that growth induces in shifting economic power among groups and among regions. Development requires, as a minimum, peace, sufficient personal security, and a tolerable administration of justice. Stable, firm government structures that are able routinely to handle shifts of power without violence are optimum for people to work, invest, and plan for the future. Acquiring this capability in countries still engaged in creating political and social cohesion requires time and cannot be drastically accelerated.

Similarly, where low levels of education and training hamper development, the pace may be held down by how fast people can learn and acquire new skills. It may be delayed if governments choose to turn their backs on modernization, as they have in some countries, and destroy or expel their modernizing elements; in such cases, an actual retrogression in living standards may result. In some other countries where development had been rapid, social and psychological stresses have stimulated the growth of movements opposed to economic progress that are having a perceptible effect on government policies.

Another limit on development is the growth rate of population, which is still very high in most borrowing countries. This means that a rate of economic growth that was adequate for early borrowers like Finland to bring real increases in living standards is swallowed up in present borrowers by an expansion in population, with little perceptible improvement in their incomes. Robert McNamara and the Bank in the 1970s helped immensely in focusing the attention of many countries on the need to try to bring down the rate of population growth. This is a good example of when the Bank has made a major contribution that was not reflected in the lending program. Perceptible progress is clearly being made—the population growth rate is dropping in many countries—but this, too, is very slow.

With the growing realization that economic development was going to take a very long time in the poorest countries and that its impact on social conditions could not be disregarded if the necessary popular support were to be maintained, Robert McNamara proposed that the objective of development should be changed from growth to growth with income redistribution toward the poor. The policy of the Bank became one of emphasizing poverty alleviation while helping economic growth. The Bank has not, however, gone so far as to make meeting the basic needs of the poor the major objective. That is, it remains an economic development rather than an international income redistribution agency. In any case, there has never been a satisfactory definition of what basic needs are or who is to determine them: the people themselves or experts? Nor is it clear whether satisfying basic needs today contributes to economic development (helping small farmers may stimulate growth more than assisting landless laborers); even if it does, is it the most cost-effective way of encouraging growth?

The limitations discussed above were essentially unavoidable, but another limiting condition on development in the 1980s could perhaps have been avoided. This is the enormous external debt that some countries accumulated, mostly during the 1970s, and which they can only continue to service at the cost of constricting their investment and holding down or actually reducing standards of living. The situation is reminiscent of a problem faced by the Bank in the first years of its operations. During the 1920s, the inexperience of U.S. investment bankers and the euphoria of the times led to overborrowing by a large number of governments and, to widespread defaults in the 1930s. Until well into the 1950s, the ability of the Bank to help some countries was inhibited while they painfully negotiated settlement of their defaults. In the 1970s, commercial bankers flush with OPEC deposits repeated the history of the 1920s that had been forgotten.

As a direct result, by 1984, several of the Bank's member countries were faced with such overwhelming external debt service that only a continuous process of rescheduling (and in some cases the extension of new loans to cover the interest due) allowed them to avoid default. These countries are having to throttle their economic growth, impose politically difficult burdens on their people, and their capacity to undertake new borrowing to finance needed new investment has been severely impaired.

The future

With all these limitations, what is the future for the Bank? Many futures are possible, none is certain, and about all that one can do with some assurance is to identify forces and trends that will shape events. Most of the countries that rely today on the Bank for help are mainly those that have, as has been indicated above, much more severe obstacles to overcome than those countries that developed successfully in the last 40 years. Economic progress in many of the lowest-income countries is going to be painfully slow for many years to come. However, whether the ultimate constraints are external or internal, there is a limit on what the provision of capital by the Bank can do to accelerate their development.

In the 1950s, the Bank made an important contribution to helping countries cope with the external debt problems left over from the 1930s. And now it is trying, in cooperation with the Fund, to help countries make necessary adjustments on a case-by-case basis. If the international economic environment is favorable, some of the large debtors may consequently be able to resolve their debt problems. But if it is not favorable, the Bank at some point may have to be called on to play a larger role—and be provided with the necessary resources and powers to do so—in working out, in cooperation with the Fund, longer-term solutions to the present debt overhang. As a long-term lender, the Bank is well qualified to work out whatever proves necessary. If governments are prudent and act soon, matters may be handled more calmly; if not, action may have to be taken precipitously with possibly very serious implications.

In addition, some arrangement will have to be made to take up some of the slack in the resource contribution to the developing world that was made by the commercial banks. This should entail a large increase in the lending capacity of the Bank as well as in its leadership role in mobilizing other funds for its borrowers. Governments learned a long time ago that in their domestic operations banks are too vital to be left unregulated. One lesson that industrial countries may draw from the present external debt situation is that the benefits of the international operations of commercial banks could be greatly enhanced if lending were channeled through consortia headed by the Bank (or one of the other international financial institutions) that can provide the leadership, analysis, and judgment that the commercial banks cannot.

The need for IDA assistance will remain great for the foreseeable future. Since most governments that contribute to IDA agree on this, it is unlikely that the decrease of funds in the Seventh Replenishment will start a new trend. The support and leadership of the Bank in identifying and encouraging research on those obstacles specific to the tropics that make development of the poorest countries so difficult will also continue to be crucially important.

Since good economic management is central to economic progress, the Bank will undoubtedly find it necessary to emphasize strengthening this aspect of its development work. In the early years of its lending to the well-established nations of the temperate zones, the Bank often made a substantial contribution to improving the overall allocation and use of resources through better macroeconomic policies. With its later borrowers, the Bank usually found that concrete progress could be achieved better by concentrating on the use of resources at the micro or project level. Emphasis on projects will undoubtedly continue to be needed in many countries. However, in the emerging industrial countries, macroeconomic policies that influence the broad allocation and management of resources within the economy demand more attention, and this was the focus of much of the Consultative Group work over the years. In these countries, the Bank is likely to need to give still higher priority to macropolicy issues in its lending and negotiations. Growing emphasis on structural adjustment and sector loans or other macropolicy packages is indicated. The new location of EDI within the operational complex of the Bank shows that the contribution of training to improving economic management at the micro and macro levels has been recognized to be as important a developmental tool as the provision of capital finance in the future policies of the Bank.

The Bank continues to be one of the most effective organizations in the world. Its experience and its able personnel are unmatched. Its creation and successful record are unique in world history. It is impossible to believe that governments will neglect to make growing use of the capabilities of such a splendid instrument. F&D